

CASE

NUMBER:

99 - 376

RECORD REQUEST

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<i>VI-C-65</i>		<i>15</i>	<i>99-093</i>		
<i>VI-F-I-175</i>		<i>42</i>	<i>99-313</i>		
<i>V11-5-237</i>		<i>45</i>	<i>99-348</i>		
<i>V-E-308</i>		<i>47</i>	<i>99-375</i>	<i>(Waltchen)</i>	
<i>V-E-308</i>		<i>50</i>	<i>99-410</i>		

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HISTORY INDEX FOR CASE: 1999-376

AS OF : 02/14/01

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.

Investigation - Rates

AVOIDED COST STUDY

APPROVING DUO COUNTY'S AVOIDED COST METHODOLOGY AND STUDY

SEQ NBR	ENTRY DATE	REMARKS
0001	09/07/1999	Application.
0002	09/14/1999	Acknowledgement letter.
0003	09/22/1999	Order entered regarding avoided cost studies
M0001	09/27/1999	CLINT QUENZER/LOGAN TELE. COOP.-RESPONSE TO PSC ORDER DATED 9/22/99
M0002	09/27/1999	DANIEL MCKENZIE-DEFER FILINGS
M0003	09/27/1999	ALLISON WILOUGHBY/CONTROLLER-DEFER FILING
M0004	09/28/1999	PAUL GREARHEART COALFIELDS TELEPHONE-IN RESPONSE TO ORDER WILL DEFER FILING AVOIDED COST ST
M0005	09/28/1999	THOMAS PRESTON FOOTHILLS TELEPHONE-WILL DEFER FILING AVOIDED COST STUDY
M0006	09/28/1999	THOMAS PRESTON FOOTHILLS-RESPONSE TO ORDER WILL DEFER FILING ITS AVOIDED COST STUDY
M0008	09/28/1999	DARYL WYATT SOUTH CENTRAL RURAL TELE-RESPONSE TO ORDER WILL DEFER FILING AVOIDED COST STUDY
M0007	09/29/1999	J D TOBIN BRANDENBURG TELEPHONE-RESPONSE TO ORDER WILL DEFER FILING ITS AVOIDED COST STUDY
M0009	09/30/1999	F L TERRY HTC-RESPONSE TO ORDER WILL DEFER FILING AVOIDED COST STUDY
M0010	09/30/1999	HARLON PARKER BALLARD RURAL TELE-RESPONSE TO ORDER WILL DEFER FILING OF AVOIDED COST STUDY
M0011	10/01/1999	JOHN FEEHAN TDS TELECOM-RESPONSE TO ORDER WILL DEFER FILING AVOIDED COST STUDY
M0012	10/01/1999	THOMAS ROWLAND NCTC-RESPONSE TO ORDER WILL DEFER FILING OF AVOIDED COST STUDY
M0013	10/01/1999	ROBERT THACKER THACKER GRIGSBY TELE-RESPONSE TO ORDER WILL DEFER FILING OF AVOIDED COST STU
M0014	10/01/1999	GARY MCCLAIN WEST KY RURAL TELEPHONE-RESPONSE TO ORDER WILL DEFER FILING AVOIDED COST STUDY
M0015	10/01/1999	KEITH GABARD PRTC-RESPONSE TO ORDER WILL DEFER FILING AVOIDED COST STUDY
M0016	10/04/1999	ALLTEL LARRY KRAJCI-RESPONSE TO ORDER OF SEPT 22,99 WILL DEFER FILING AVOIDED COST STUDY
M0017	11/19/1999	WILLIAM MAGRUDER DUO COUNTY TELEPHON-REVISED AVOIDABLE COST STUDY
0004	01/06/2000	Order scheduling 1/11 informal conference
0005	02/14/2000	Informal Conference Memorandum
M0018	02/24/2000	DARYL HAMMOND DUO COUNTY TELEPHONE-CALCULATION OF AVOIDED COST AS OUTLINED IN STAFF METHOD
0006	03/21/2000	Order issuing data request; response due 4/10
M0019	04/03/2000	WILLIAM MAGRUDER DUO CO TELEPHONE-RESPONSE TO REQ FOR ADDITIONAL INFO TO MARCH 21,00 ORDER
0007	05/25/2000	Final Order; wholesale discount rate for retail services shall be 8.56 percent.
M0020	06/16/2000	HOWARD COOPER DUO COUNTY-REQUEST FOR REHEARING
0008	07/06/2000	Order approving rehearing.



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
211 SOWER BOULEVARD
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

CERTIFICATE OF SERVICE

RE: Case No. 1999-376
DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.

I, Stephanie Bell, Secretary of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the following by U.S. Mail on July 6, 2000.

Parties of Record:

William W. Magruder
Daryl L. Hammond
Duo County Telephone Cooperative
Corporation, Inc.
1021 West Cumberland Avenue
P. O. Box 80
Jamestown, KY. 42629

Honorable Howard Kent Cooper
Attorney at Law
Howard Kent Cooper
Monument Square
P. O. Box 410
Jamestown, KY. 42629 0410

Stephanie D. Bell

Secretary of the Commission

SB/lc
Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPROVING DUO COUNTY'S AVOIDED) CASE NO.
COST METHODOLOGY AND STUDY) 99-376

O R D E R

The Commission, on May 25, 2000, entered its Order establishing an avoided cost methodology and wholesale discount rate for Duo County Rural Telephone Cooperative Corporation, Inc. ("Duo County"). On June 16, 2000, Duo County filed a request for rehearing, stating that it considers the Commission methodology "acceptable" with two exceptions. The exceptions cited by Duo County concern account 5301 – uncollectibles and the avoided cost determinations in accounts 6611-6613 and Account 6623. Duo County states that telecommunications uncollectibles should, pursuant to 47 C.F.R. 51.609(c)(2), be treated as indirectly avoidable. In addition, Duo County contends that FCC rules also mandate treatment of Accounts 6611-6613 and Account 6623 that differs from the methodology ordered by the Commission.

For the reasons discussed below, Duo County's petition is granted in part and denied in part.

Telecommunications Uncollectibles

The Commission's decision in its May 25 Order is consistent with its prior decision in Case No. 96-482.¹ However, Duo County is correct that, since the decision in Case No. 96-482, legal framework has changed. The FCC's pricing rules were, at the time Case No. 96-482 was decided, stayed by the Eleventh Circuit Court of Appeals. The FCC's authority over the wholesale pricing methodology has now, however, been confirmed, and the stay is no longer in effect. Accordingly, the May 25 Order should be modified to reflect that uncollectibles shall be treated as indirectly avoidable.

Avoided Costs Accounts

In its May 25, 2000 Order, the Commission rejected Duo County's proposal to apply its proposed 64.35 percent avoided cost rate to only the intrastate expenses found in Account 6623 – Customer Service. The 64.35 percentage was determined by dividing the avoidable costs in Account 6623 by the total interstate and intrastate expenses in that account. In its calculation the Commission applied the 64.35 percent avoided cost percentage to the entire account, rather than to a portion of it, to determine the avoided costs for purpose of the calculation of the wholesale discount rate.

In its rehearing request, Duo County argues that the Commission's method is inconsistent with FCC rules as set forth in 47 C.F.R. 51.609(d) because the 64.35 percent adjustment was applied to Account 6623 and the FCC default rate to other

¹ Case No. 96-482, The Interconnection Agreement Negotiations Between AT&T Communications of the South Central States, Inc. and BellSouth Telecommunications, Inc. Pursuant to 47 U.S.C.

accounts, thereby ignoring adjustments allowed by 47 C.F.R. 51.609(d). Duo County recommends using the FCC's default rate for Account 6623 in lieu of the 64.35 percent rate.

The percentages used by the Commission in determining the avoided costs in directly avoided expense categories are identical to those used by Duo County in all of its submissions to the Commission. The only departure from Duo County's method relative to these directly avoided expenses was the application of the directly avoided cost percentage to Account 6623 in its entirety. In developing the avoided cost percentage for Account 6623, Duo County examined the account in detail to determine which of the numerous expenses included in the account were not avoidable for a rural local exchange carrier in order to rebut the presumption of avoidable expenses. The result of the analysis was that expenses for local service order processing included in Account 6623 were found to be 75 percent avoidable.² Identified as 100 percent unavoidable were expenses related to PIC change charges, interexchange carrier order processing, coin collection and counting, message processing and carrier access billing systems activities. The remaining individual expenses in Account 6623 were determined by Duo County to be 100 percent avoidable. Duo County then applied these percentages to the costs associated with each of these activities to determine avoided costs. Of the \$350,033 total expenses included in Account 6623, \$223,849 were determined to be avoided based on percentages determined by Duo County. To this point, the adjustments to the individual expense items are exactly the adjustments

² Duo County's September 7, 1999 filing, page 4, Attachment II.

allowed in 47 C.R.F. 51.609(d). Consequently, they are in accord with the FCC rules. However, Duo County has gone one step further, erroneously applying the avoided cost percentage to Account 6623 after removing interstate costs.

With regard to the other direct accounts, the Company demonstrated that the costs in Account 6622 – Number Services – were not avoidable. However, no demonstration of avoidability was made for Account 6613, and it appears that the FCC's default rate was used for this account.

In summary, the Commission finds that, in regard to Accounts 6611-6613 and Account 6623, the May 25 Order adopted Duo County's avoided cost percentages and is wholly consistent with the FCC's rules. The Commission allowed Duo's proposed adjustments to Accounts 6622 and 6623 and accepted the FCC's default rate for Account 6613. However, the Commission will not revisit its refusal to apply the avoided cost percentage to local and intraLATA toll expenses alone. Removing interLATA expenses from the equation would be inconsistent with the FCC's methodology for determining a wholesale discount rate.

Conclusion

For the foregoing reasons, the Commission grants in part and denies in part Duo County's petition for rehearing. Attached is the Commission's revised calculation of Duo County's wholesale discount rate consistent with the decisions reached herein.

IT IS THEREFORE ORDERED that Duo County's petition is granted in part and denied in part as described herein.

Done at Frankfort, Kentucky, this 6th day of July, 2000.

By the Commission

ATTEST:

A handwritten signature in cursive script, appearing to read "M. A. Huel", written over a horizontal line.

Executive Director

1998 Duo County

	Account #	Regulated Amount	Direct Costs by Account	Direct Avoid %	Direct Avoid Cost	Indirect Costs by Account	Indirect Avoid %	Indirect Avoid Cost	
Basic Local Service	520	2,656,991							
LD Network Services	525	777,964							
Revenues Subject to Resale		3,434,955							
Uncollectibles	5301	5,423				5,423	4.45%	241	
Uncollectibles - Other	5302	0				0	0.00%	0	
Uncollectible Revenue		5,423				5,423		241	
Network Support	6110	4,746	4,746	0.00%	0				
Land & Building	6121	115,570				115,570	4.45%	5,147	
Furniture & Artworks	6122	2,543				2,543	4.45%	113	
Office Equipment	6123	28,510				28,510	4.45%	1,270	
Gen. Purpose Computer	6124	24,706				24,706	4.45%	1,100	
General Support	6120	171,329				171,329	4.45%	7,630	
Central Office Switch	6210	337,498	337,498	0.00%	0				
Operator Systems	6220	2,073	2,073	0.00%	0				
Central Office Trans.	6230	10,433	10,433	0.00%	0				
Information O/T	6310	0	0	0.00%	0				
Cable & Wire	6410	828,677	828,677	0.00%	0				
Other PP&E	6510	0	0	0.00%	0				
Power	6531	0	0	0.00%	0				
Network Adm.	6532	670,606	670,606	0.00%	0				
Testing	6533	0	0	0.00%	0				
Plant Operations Admin.	6534	0	0	0.00%	0				
Engineering	6535	0	0	0.00%	0				
Network Oper.	6530	670,606	670,606	0.00%	0				
Access	6540	0	0	0.00%	0				
Depr. / Amort.	6560	3,068,893	3,068,893	0.00%	0				
Product Management	6611	0	0	0.00%	0				
Sales	6612	0	0	0.00%	0				
Product Advertising	6613	14,455	14,455	90.00%	13,010				
Marketing	6610	14,455	14,455	90.00%	13,010				
Call Completion	6621	0	0	0.00%	0				
Number Services	6622	62,881	62,881	0.00%	0				
Customer Service	6623	350,032	350,032	64.35%	225,248				
Service Expense	6620	412,913	412,913	54.55%	225,248				
Executive	6711	261,452				261,452	4.45%	11,643	
Planning	6712	0				0	4.45%	0	
Exec. & Planning	6710	261,452				261,452	4.45%	11,643	
Accounting & Finance	6721	162,019				162,019	4.45%	7,215	
External Relations	6722	174,650				174,650	4.45%	7,777	
Human Resources	6723	16,836				16,836	4.45%	750	
Information Management	6724	162,458				162,458	4.45%	7,235	
Legal	6725	18,448				18,448	4.45%	822	
Procurement	6726	12,836				12,836	4.45%	572	
Research & Development	6727	0				0	4.45%	0	
Other General & Administrative	6728	147,123				147,123	4.45%	6,552	
General & Administrative	6720	694,370				694,370	4.45%	30,922	
Prov. Uncollect. Notes	6790	0				0	4.45%	0	
Total Expenses		6,477,445	5,350,294	4.45%	238,258	1,132,574	4.45%	50,436	288,694
									8.40%

COOPER & ASSOCIATES
LAW OFFICES

Howard Kent Cooper

404 Monument Square
P.O. Box 410
Jamestown, KY 42629

Tel: (270) 343-2123
FAX: (270) 343-2124

June 13, 2000

RECEIVED

JUN 16 2000

PUBLIC SERVICE
COMMISSION

Mr. Martin J. Huelsmann, Executive Director
Kentucky Public Service Commission
P.O. Box 615
Frankfort, KY 40602-0615

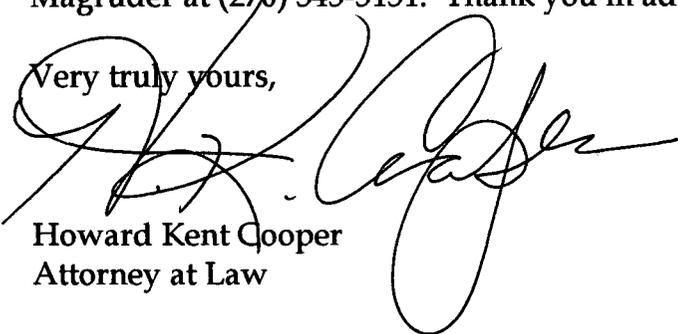
RE: PSC Case No. 99-376 - Request for Rehearing
Duo County's Avoided Cost Methodology and Study

Dear Mr. Huelsmann:

Enclosed for filing please find an original and ten (10) copies of Duo County Telephone Cooperative's Request for Rehearing in the above-referenced avoided cost methodology and study. The filing provides explanation why Duo County Telephone believes the Commission's adjustments to Account #5301 - Telecommunications Uncollectibles and its treatment of the avoided costs in Accounts #6611-6613 and Account #6623 are inappropriate and should be reconsidered in developing an avoidable cost methodology and wholesale rate discount for Duo County Telephone.

If you have any questions concerning the filing, please feel free to contact William Magruder at (270) 343-3131. Thank you in advance for your assistance in this matter.

Very truly yours,


Howard Kent Cooper
Attorney at Law

COMMONWEALTH OF KENTUCKY
BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

RECEIVED

JUN 16 2000

PUBLIC SERVICE
COMMISSION

In The Matter of:

DUO COUNTY'S AVOIDED COST)
METHODOLOGY AND STUDY)

CASE NO. 99-376

REQUEST FOR REHEARING

Background

On May 25, 2000, the Kentucky Public Service Commission ("Commission") issued an Order adopting an avoided cost methodology and a wholesale discount rate for Duo County Rural Telephone Cooperative Corporation, Inc. ("Duo County"). The Commission adopted an avoided cost methodology that was developed by the Commission Staff. The Commission rejected Duo County's avoided cost methodology because it considered the Commission Staff's method easier to administer and consistent with the method that it has used for other large local exchange carriers ("LEC") in Kentucky. Utilizing the Commission's avoided cost methodology the Commission determined that the resulting wholesale discount rate for Duo County should be 8.56 percent.

Though Duo County continues to believe that its avoided cost methodology would be more appropriate for rural LECs, Duo County does believe, that with two exceptions, the Commission's avoided cost methodology provides an acceptable estimate of the wholesale discount rate. The two exceptions are the Commission's adjustment for account 5301 - telecommunications uncollectibles and its treatment of the avoided costs in Accounts 6611-6613 and Account 6623. The following explanation details why Duo

County believes that the Commission's adjustments to these accounts are inappropriate and should be reconsidered in developing an avoided costs methodology and wholesale rate discount for Duo County.

Issue 1 – Telecommunications Uncollectibles

In BellSouth's Case No. 96-482, the Commission established a policy whereby 100 percent of Account 5301, Telecommunications Uncollectibles would be included in an avoided cost study as directly avoidable. Based on its established policy, the Commission rejected Duo County's proposal to treat telecommunications uncollectibles as indirectly avoidable costs. At the time this policy was adopted by the Commission, the Federal Communications Commission's *11 FCC Red 15499* ("*Local Competition Order*") was under challenge in Federal Courts and did not control the Commission's treatment of the account containing telecommunications uncollectibles. Since that time the FCC's authority over these rates has been affirmed in *Iowa Utils. Board v. FCC, 120 F.3d 753 (8th Cir. 1997)* thus the FCC's Local Competition rules now control the Commission treatment of this account.

The FCC in 47 CFR 51.609(c) (2) states:

Include, as indirect costs, a portion of the costs recorded in USOA accounts 6121-6124 (general support expenses), 6711, 6712, 6721-6728 (corporate operations expenses, and 5301 (telecommunications uncollectibles) (Secs. 32.6121-32.6124, 32.6711, 32.6712, 36.6721-32.6728, and 32.5301 of this chapter;).

Duo County's proposed treatment of telecommunications uncollectibles as indirectly avoidable is consistent and required by the FCC's *Local Competition Order*. Therefore, the Commission should either grant rehearing or adopt Duo County's proposed treatment of uncollectibles as indirectly avoidable in its avoided cost study.

Issue 2 - Avoided Costs Account

Duo County in preparing the revised avoidable cost study utilized adjustments consistent with the FCC's 47 CFR 51.609(d). The FCC's rule states:

“(d) Costs included in Accounts 6611-6613 and 6621-6623 described in paragraph (c) of this section (Secs. 32.6611-32.6613 and 32.6621-32.6623 of this chapter) may be included in wholesale rates only to the extent that the incumbent LEC proves to a state commission that specific costs in these accounts will be incurred and are not avoidable with respect to services sold at wholesale, or that specific costs in these accounts are not included in the retail prices of resold services...”.

Duo County demonstrated that Accounts 6611-6613 and Account 6623 were subject to part 36 allocation rules and were not and will not be included in retail prices of resold service. Thus, it was appropriate and necessary under 47 CFR 51.609(d) to exclude these costs from the avoidable cost study.

The Commission apparently agreed with Duo County's 47 CFR 51.609(d) adjustments when it stated, “Such evaluation apparently determined the dollar cost of each activity in the accounts that would be avoided in a resale environment.”¹ However the Commission did not agree with the way Duo County applied the avoided cost percentage to account 6623. The Commission states, “It is incorrect to apply an avoided cost percentage based upon an entire account to a mere portion of that account.”² As a result of this concern the Commission applied the 64.35 percent adjustment developed by Duo County to the account 6623 - customer service and the FCC default percentages to the other accounts. In effect, the Commission failed to recognize the 47 CFR 51.609(d) adjustments for any of the accounts in question because it did not agree with Duo County's use of a total avoided cost percentage on individual accounts. By ignoring the

¹ Case No. 99-376; Duo County's Avoided Cost Methodology and Study; May 25, 2000; p.4

² Ibid. p. 4.

47 CFR 51.609(d) adjustments, The Commission adopted avoided cost methodology results in an avoided cost study that is inconsistent with the FCC's Rules and penalizes Duo County's remaining customers when a reseller initiates service.

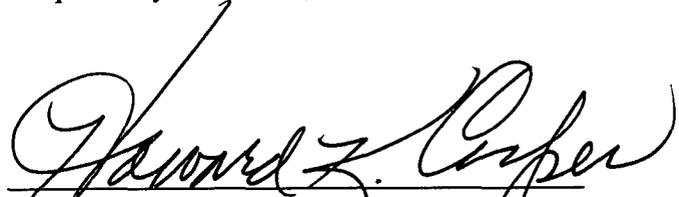
Duo County believes that the appropriate treatment for these accounts using the Commission's method is to apply 47 CFR 51.609(d) adjustments to these accounts and then apply the appropriate FCC default discount rates to Accounts 6611-6613 and Account 6623 to determine the avoided costs. For Account 6623 the Commission should use the FCC's default value of 90 percent in lieu of the 64.35 percent proposed by Duo County for its alternate method. The resulting avoided cost methodology and study would then be consistent with the FCC's Local Competition Order and provide a more accurate estimate of Duo County's avoided costs. Thus, the Commission should grant Duo County's Request for Rehearing and either adopt Duo County's proposed 47 CFR 51.609(d) adjustment or order rehearing on this issue.

Conclusion

Attached as Exhibit A, Duo County provides a revised cost study, which includes adjustments consistent with its position on the issues discussed above. If the Commission grants rehearing and adopts the position supported by Duo County in this Request, Duo County's avoided cost percentage will be reduced to 7.34 percent.

Therefore pursuant to KRS 278.400, Duo County requests that the Commission
grant rehearing on the limited issues identified above.

Respectfully submitted,

A handwritten signature in cursive script, reading "Howard Kent Cooper". The signature is written in black ink and is positioned above the typed name and address.

Howard Kent Cooper, Legal Counsel
Duo County Telephone Coop. Corp., Inc.
P. O. Box 80
Jamestown, Kentucky 42629

Duo County Telephone Cooperative Corporation, Inc. (Revised)

Summary of Commission Order Method on Reconsideration

EXHIBIT A
Reconsideration I

Line	Account Description	A	B	C	D
		Per Study 12/31/98	Local & IntraLATA toll Per Study 12/31/98	%	Avoided Costs Total
<u>Direct Accounts</u>					
1	6611 Product Management	\$ -		90.00%	\$ -
2	6612 Sales	\$ -		90.00%	\$ -
3	6613 Product Advertising	\$ 14,455	\$ 7,369	90.00%	\$ 6,632
4	6621 Call Completion	\$ -	\$ -	0.00%	\$ -
5	6622 Number Service	\$ 62,881	\$ 42,640	0.00%	\$ -
6	6623 Customer Services	\$ 350,032	\$ 223,849	90.00%	\$ 201,464
7	Total Direct	\$ 427,368	\$ 273,858		\$ 208,096
8	Total Operating Expense	\$ 6,777,522			
	Total Operating Expense less accounts				
8a	5301, 7240, 7370	\$ 6,477,445			
	Total Direct Operating Expense less				
8b	accounts 7240, 7370	\$ 5,350,294			
<u>Indirect Accounts</u>					
9	6711 Executive	\$ 261,452		3.89%	\$ 10,169
10	6712 Planning	\$ -		3.89%	\$ -
11	6721 Accounting & Finance	\$ 162,019		3.89%	\$ 6,302
12	6722 External Relations	\$ 174,650		3.89%	\$ 6,793
13	6723 Human Resources	\$ 16,836		3.89%	\$ 655
14	6724 Information Management	\$ 162,458		3.89%	\$ 6,319
15	6725 Legal	\$ 18,448		3.89%	\$ 718
16	6726 Procurement	\$ 12,836		3.89%	\$ 499
17	6727 Research & Development	\$ -		3.89%	\$ -
18	6728 Other G&A	\$ 147,123		3.89%	\$ 5,722
19	6121 Land and Buildings	\$ 115,570		3.89%	\$ 4,495
20	6122 Furniture	\$ 2,543		3.89%	\$ 99
21	6123 Office Equipment	\$ 28,510		3.89%	\$ 1,109
22	6124 General P Computer	\$ 24,706		3.89%	\$ 961
23	5301 Uncollectible Revenue	\$ 5,423		3.89%	\$ 211
24	Total Indirect	\$ 1,132,574			\$ 44,051
25	Total Direct + Indirect	\$ 1,559,942			\$ 252,147
26	Basic Local Service	\$ 2,656,991			
27	LD Network Services (toll revenue)	\$ 777,964			
28	Revenues Subject to Resale	\$ 3,434,955			
29	Avoidable Discount				7.34%
30	Cost Onset	\$ -			0.00%
31	Net Avoidable Discount				7.34%



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
211 SOWER BOULEVARD
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CERTIFICATE OF SERVICE

RE: Case No. 1999-376
DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.

I, Stephanie Bell, Secretary of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the following by U.S. Mail on May 25, 2000.

Parties of Record:

William W. Magruder
Daryl L. Hammond
Duo County Telephone Cooperative
Corporation, Inc.
1021 West Cumberland Avenue
P. O. Box 80
Jamestown, KY. 42629

Honorable Howard Kent Cooper
Attorney at Law
Howard Kent Cooper
Monument Square
P. O. Box 410
Jamestown, KY. 42629 0410

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

DUO COUNTY'S AVOIDED COST)
METHODOLOGY AND STUDY) CASE NO. 99-376

O R D E R

BACKGROUND

On September 7, 1999, Duo County Telephone Cooperative Corporation, Inc. ("Duo County") filed with the Commission an avoided cost study in support of its proposed wholesale discount rate. The filing was made pursuant to the Commission's Order in Administrative Case No. 355.¹ The study consisted of workpapers showing the development of the wholesale discount rate and a narrative explaining the rationale supporting the methodology used in the development. On November 19, 1999, Duo County filed a revised study incorporating changes to bring the study in line with its annual report to the Commission. On January 11, 2000, an informal conference was held between the Commission Staff and representatives of Duo County to discuss certain issues that arise from the revised study and that are unique to small, rural, average schedule companies. On February 24, 2000, Duo County filed another avoided cost study incorporating recommendations discussed at the informal conference. On March 21, 2000, the Commission issued an Order requesting documentation of the cost study supporting the expense allocations. The information

¹ Administrative Case No. 355, An Inquiry Into Local Competition, Universal Service, and the Non-Traffic Sensitive Access Rate, page 14.

was filed on April 3, 2000. Duo County believes its methodology conforms to the guidelines prescribed by the Federal Communications Commission ("FCC") in its First Report and Order 96-325.² Duo County recognizes that a wholesale discount methodology must concur with rules prescribed by the FCC and the general rules established by the Commission in its Order in Administrative Case No. 355.

DISCUSSION

Duo County's Initially Proposed Method

Duo County's February 24, 2000 "Proposed Method" uses total operating expenses to determine the indirect expense percentage and for determining the avoidable discount. The proposed method also excludes Account 6722 – External Relations, Account 6725 – Legal, Account 6726 – Procurements, and Account 6728 – Research and Development from any calculation of the avoided cost rate. It is Duo County's position that in a resale environment these expenses could increase and not decrease, although there is no empirical evidence to support this position. Duo County also subtracted from its avoidable discount rate a factor for anticipated increased expenses that would be incurred in a resale environment. These increases were labeled "Cost Onsets." Finally, the "Proposed Method" treats uncollectible revenue as indirectly avoided. The "Proposed Method" produced a wholesale discount rate of 2.96 percent. Duo County recommended that the Commission adopt the proposed method

² Implementation of the Local Competition Provisions in the Telecommunications Act of 1996 (CC Docket No. 96-98) and Interconnection Between Local Exchange Carriers and Commercial Mobile Radio Service Providers (CC Docket No. 96-185), First Report and Order, Released August 8, 1996.

because it is administratively efficient and does not require small local exchange carriers ("LECs") to prepare cost studies.

Adjusted Staff Method

At the informal conference, Duo County requested a copy of the methodology the Commission used in determining avoided cost from the large Kentucky telephone companies so that Duo County's inputs could be tested in that formula. The company made several adjustments to that study, both in its February 24, 2000 filing and in its April 3, 2000 filing. These adjustments included; (1) using costs related to local and intraLATA tolls as derived from the modified cost separation study; (2) inclusion of intrastate intraLATA and intrastate interLATA non-traffic sensitive revenues in the total retail revenue figure used as the denominator in the avoided cost calculation; (3) inclusion of uncollectible revenues as indirectly avoided; and (4) inclusion of cost onsets. The result was a 3.90 percent discount rate as reflected in the April 3, 2000 filing.

Commission's Position

In formulating its rules for resale, the FCC specifically recognized resale as an important entry strategy for new entrants into the local market and its strategic importance to the development of competition.³ The Commission agrees with this assessment and considers the development of an accurate wholesale discount rate crucial to the development of competitive markets. Duo County's proposed method falls short, because it excludes certain accounts based on speculative changes, includes

³ FCC Order No. 96-325, Paragraph 907.

revenues not subject to resale, and includes cost onsets. The Commission will continue to calculate the avoided cost discount rate in the same manner as it has in the past. The Commission's method is easy to administer and is consistent for all LECs.

ADJUSTMENTS

Avoided Cost Percentage

In determining the avoided cost percentage for Account 6621 – Call Completion, Account 6622 – Number Service, and Account 6623 – Customer Services, Duo County empirically evaluated each charge within these accounts. Such evaluation apparently determined the dollar cost of each activity in the accounts that would be avoided in a resale environment and divided those amounts by the total of the account, resulting in a 64.35 percent avoided cost percentage. For Account 6611 – Product Management, Account 6612 – Sales, and Account 6613 – Product Advertising, the company used a 90 percent avoided discount rate. The Commission agrees with these percentages.

Avoided Costs

In determining the avoided costs for these accounts, the company applied the factors determined above to the expenses associated with intrastate toll and local service activities. The Commission does not agree with this method. It is incorrect to apply an avoided cost percentage based upon an entire account to a mere portion of that account. If the company intended to develop an avoided cost percentage only for intraLATA toll and local, it should have included only those expense items in its determination of the avoided cost percentage. Therefore, the Commission will apply the avoided cost percentages described above to the total account. The Commission has consistently employed this method.

Retail Revenue

Duo County has proposed that intraLATA and interLATA non-traffic sensitive revenue be added to local and intraLATA toll revenue in the discount rate denominator. In support of this proposal, the company states that these revenues are designed to reduce local or retail rates and that, without these revenues, small LECs would necessarily see the residual revenue requirement increase in the local jurisdiction.

The Commission disagrees with the inclusion of these revenue streams in the calculation. These revenues are clearly access revenues, and access services are not subject to the FCC's resale requirements. The claim that the local revenue requirement would increase in the local jurisdiction for any one company in particular is speculative at best, since no small, rural company has come to the Commission since the early eighties for a review of its revenue requirement. Since new entrants into rural markets do not have these revenues streams to provide support to their rates, they could not possibly compete with incumbent carriers at a wholesale rate that included these revenues.

Uncollectible

The company proposes to include uncollectible revenues as indirectly avoidable. It claims the FCC recognizes that the LEC will continue to operate in a retail environment; consequently, uncollectible revenues will not be 100 percent avoidable.

Commission policy regarding treatment of uncollectible revenues was established in Case No. 96-482⁴ in which it determined that it would be unreasonable to

⁴ Case No. 96-482, The Interconnection Agreement Negotiations Between AT&T Communications of the South Central States, Inc. and BellSouth Telecommunications, Inc. Pursuant to 47 U.S.C.

classify as LEC costs uncollectible costs incurred by resellers pursuant to sale of services to end-users. Therefore, 100 percent of uncollectibles will be included in Duo County's study.

Cost Onsets

Duo County's study recognizes what it perceives to be recurring and nonrecurring costs incurred as a result of beginning operations as a wholesale provider company. The company characterizes the adjustment as consistent with FCC discussions in FCC Order No. 96-325. Although the company did not cite a paragraph in the FCC's Order, it appears that Paragraph 928 is the operative citation. In this paragraph, the FCC states that "some new expenses may be incurred in addressing the needs of resellers as customers." The discussion in this paragraph centers around percentages of costs in Account 6611 – Product Management, Account 6612 – Sales, Account 6613 - Product Advertising, and Account 6623 – Customer Services that are avoidable in a resale environment. The FCC concludes that 10 percent of the costs in these accounts would not be avoided. Nowhere in the discussion did the FCC indicate that the 10 percent did not take into consideration some new costs.

In Case No. 98-041,⁵ the Commission denied GTE South Incorporated's ("GTE") proposal to include new costs that might be incurred by reselling its services, finding that GTE had failed to provide evidence supporting the alleged new costs. In this case, Duo County has provided dollar estimates of new costs that would be incurred as the result of wholesale activity. However, because of the lack of detail to support these

⁵ Case No. 98-041, GTE South Incorporated Avoided Cost Study.

dollar estimates and the lack of information as to the number of competitors and lost customers that would be in Duo County's territory, the Commission rejects the inclusion of Onsets in the wholesale discount computation at this time. However, should competition become a reality in Duo County's service area, the company may petition the Commission for inclusion of known and measurable impacts on this rate.

Wholesale Discount Rate

The Commission has determined that certain adjustments as discussed herein should be made to the Staff methodology as proposed by Duo County. The resulting wholesale discount rate is 8.56 percent (Appendix 1). This discount will be offered to any competitor reselling Duo County tariffed services.

IT IS THEREFORE ORDERED that the appropriate wholesale discount rate for Duo County's retail services shall be 8.56 percent. This determination is, however, subject to Duo County's receipt of a bona fide request for interconnection and subsequent Commission action on such request.

Done at Frankfort, Kentucky, this 25th day of May, 2000.

By the Commission

ATTEST:


Executive Director



William W. Magruder
Executive Vice President
and General Manager

RECEIVED
APR - 3 2000
PUBLIC SERVICE
COMMISSION

March 31, 2000

Mr. Martin Huelsmann, Executive Director
Kentucky Public Service Commission
P. O. Box 615
Frankfort, KY 40602-0615

RE: PSC Case No. 99-376

Please find enclosed the original and ten (10) copies of our response to the request for additional information in the Commission's March 21, 2000 order in the above-referenced case.

Should you need additional information or have any questions, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "W.W. Magruder", with a long, sweeping flourish extending to the right.

William W. Magruder
General Manager

WWM:spe
Enclosures

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

DUO COUNTY TELEPHONE COOPERATIVE'S)
AVOIDED COST METHODOLOGY AND STUDY)

CASE NO. 99-376

PUBLIC SERVICE
COMMISSION

APR - 3 2000

RECEIVED

DUO COUNTY TELEPHONE COOPERATIVE'S
RESPONSE TO MARCH 21, 2000 ORDER

Request #1:

Provide source documentation and/or analysis to determine intrastate intraLATA toll revenue. If the source document is not the analysis produced by BellSouth Telecommunications, Inc. ("BellSouth") in determining settlements between Class A and Class B carriers, explain why BellSouth's analysis was not used.

Response #1:

The \$808,305 intrastate intraLATA toll revenue included in the total retail revenue calculation in Exhibit-03 was the total 1998 intraLATA tolls billed to end users under the Primary Carrier Plan. This information was taken from our monthly billing registers.

Request #2:

Provide source documentation and/or analysis to determine intrastate, intraLATA non-traffic sensitive revenue ("NTSR") local support revenue and intrastate, interLATA NTSR local support revenue. Explain in detail: (1) what intrastate interLATA and intraLATA NTSR local revenue represents; (2) the inputs used in the determination of Item 1; (3) the entity which provides the revenue flow; and (4) the analysis showing the calculation of the NTSR support revenue reflected in the avoided cost study.

Response #2:

The NTSR revenue requirement is the amount of access compensation received from access customers on a per access line basis in place of a terminating carrier common line access rate.

The intrastate NTSR local support revenue included in the retail revenue calculation in Exhibit-03 was as follows:

Intrastate/IntraLATA NTSR Local Support Revenue	\$148,893
Intrastate/InterLATA NTSR Local Support Revenue	<u>356,322</u>
Total NTSR Local Support Revenue	<u>\$505,215</u>

Calculation of 1998 NTSR Requirement (Section 3.9-Duo County Intrastate Access Service Tariff):

1) NTSR rate per line for month (Section 17.1.2)	3.75
2) Access lines (as of 12/31/97)	11,227
3) Monthly NTSR Report (1 x 2)	\$42,101.25
4) Annual NTSR Report (3 x 12)	<u>\$505,215</u>

Jurisdiction of NTSR:

The total NTSR revenue requirement is collected from intrastate access customers based on their pro rata portion of intrastate carrier common line terminating minutes of use. For 1998, the jurisdiction was as follows:

<u>Access Customers</u>	<u>Intrastate Terminating MOUs</u>	<u>% Distribution</u>	<u>NTSR Amount</u>
IntraLATA Primary Carrier	4,513,394	29.47114%	\$148,893
All Other IXCs	<u>10,801,229</u>	<u>70.52886%</u>	<u>\$356,322</u>
Total	<u>15,314,623</u>	<u>100.00000%</u>	<u>\$505,215</u>

Request #3:

Provide a copy of the study performed by John Staurulakis, Inc. ("JSI") that determined "local costs". Also include a revenue study that separates revenue in the same manner as that used in the cost study. Do the expenses noted as local in the revised study include intrastate toll revenues? If not, explain why not. If not, why should the revenue denominator include intraLATA toll revenues?

Response #3:

1. A copy of the *pro forma* cost study performed by JSI is attached. The Part 36 cost study consists of two parts: Part 36 and Inputs. The "local costs" for the accounts listed in Exhibit-03 of Duo County's February 22, 2000 filing with the Commission are located on Form 8 of Part 36 (Page 8 of attached pages), Line 144, Line 151 and on Form 9, Line 170.
2. The revenue study that corresponds to the Part 36 cost study is located on Support Page 5 that was originally filed with the Commission. We have attached this Support Page 5 to supplement this response.
3. For the question "Do the expenses noted as local in the revised study include intrastate toll revenues?" the answer is no. There are no revenues in local expenses.

However, we believe that the question intended may have been: "Do the expenses noted as in the revised study include intrastate intraLATA toll expense?" The answer to this question is no as well, but we have reason to believe that such expense should be in the numerator to remain consistent with the proposed denominator. Therefore, we have attached Exhibit 4 to this response that reports in Column B the local expenses plus intraLATA toll expenses as reported in the Part 36 cost study. This adjustment increases local expenses reported in Exhibit-03 by \$44,390.

Further, we have made an adjustment to the intrastate intraLATA toll revenue listed in Exhibit 3. Duo County jointly provides this service with BellSouth. The total revenue for this service is \$808,305 (see Response #1). Of this total, Duo County's revenue portion of the jointly-provided toll is \$777,964 (including toll service and billing and collection revenues). The difference from the total and Duo County's portion belongs to BellSouth. Exhibit 4 reports the intrastate intraLATA toll revenue as \$777,964.

The effect of these two adjustments show in Exhibit 4 is that the wholesale discount increases by 0.80 percent. Since the adjusted discount remains below 4 percent, we submit that the total cost method in Exhibit 1 of our February 22, 2000 filing with the Commission is a reasonable, administratively easy approach to derive the wholesale discount for rural local exchange carriers and should be utilized by the Commission for other small rural carriers.

Duo County Telephone
Study No.: Duo81240

INFORMATION ORIGINATOR/TERMINATION

CABLE & WIRE FACILITIES

Account	Cat	Per Study
2210	2	0
	3	3,048,549
	5	0
Total		3,048,549
2220	1	0
	Intrept Bd	0
	Info Bds	0
	Ser Obs Bc	0
	Oth Bds	0
Total		0
2230	4.11	0
	4.121	24,550
	4.122	0
	4.123	0
	4.13	1,075,740
	4.21	0
	4.22	0
	4.23	87,674
	4.3	163,235
Total		1,351,199

	Msg Tel	Spl Svc	Per Study
Cat 1			
2351	0	0	0
2362	0	0	0
Coinless Pay	0	0	0
Total	0	0	0
Cat 2			
2311	0	0	0
2321	0	0	0
2341	0	0	0
Total	0	0	0
Total 2310	0	0	0

Account	Cat	Per Study
2410	1	14,962,590
	2.1	0
	2.2	0
	2.3	0
	2.4	0
	3	1,662,510
	4	0
Total		16,625,100

Plant Date: 12/31/1998
Expense Date: Mo. Ending 12/31/1998

CENTRAL OFFICE EQUIPMENT

Duo County Telephone
 Study No.: Duo81240
 EXPENSE SUMMARY

Plant Date: 12/31/1998
 Expense Date: Mo. Ending 12/31/1998

Account	Description	Per Study
6110	Network Support	4,746
6120	General Support	171,329
6210	Central Office Switching Equip - Eq Access Conv	0
6210	Central Office Switching Equipment - All Other	339,571
6220	Operator Systems	0
6230	Central Office Transmission	10,433
6310	Info Orig/Term - Customer Premise	0
6310	Info Orig/Term - Other	0
6410	Cable and Wire Facilities	828,677
	Total Plant Specific	1,354,756
6510	Other Property, Plant & Equipment	0
6530	Network Operations	670,606
6540	Access Expense	0
6561	Depreciation	3,068,893
6562	Dep Exp - Property Held For Future Use	0
6563	Amortization - Tangible	0
6564	Amortization - Intangible	0
6565	Amortization - Acquisition	0
6560	Depreciation & Amortization	3,068,893
	Total Plant Non-Specific Operations	3,739,499
6610	Marketing	14,455
6620	Services	412,914
	Total Customer Operations	427,369
6710	Executive and Planning	261,452
6720	General and Administrative	694,370
	Total Corporate Operations	955,822
7240	Ad Valorem	280,572
7370	Special Charges	14,082
	Total Operating Expenses & Taxes	6,772,100

Duo County Telephone
Study No.: Duo81240
ITEMS ASSIGNED BY PRIMARY PLANT ACCOUNT

Plant Date: 12/31/1998
Expense Date: Mo. Ending 12/31/1998

Primary Plant Account	Description	2681	2682	4100	4340	6561	5240	1438
2111	Land	0	0	0	0	0	0	0
	General Support	0	0	0	0	262,607	0	0
2210	COE - Switching	0	0	0	0	471,411	0	0
2220	COE - Operator Systems	0	0	0	0	0	0	0
2230	COE - Transmission	0	0	0	0	207,130	0	0
2310	Information Origination / Termination	0	0	0	0	0	0	0
2410	Cable & Wire Facilities	0	0	0	0	2,127,745	0	0
Total		0	0	0	0	3,068,893	0	0

OPERATOR EXPENSE

	<u>Amount</u>
1 Operator	0
2 Outside Operator	0
3 Total Operator	<u>0</u>

DIRECTORY EXPENSE

	<u>Amount</u>
4 Classified	0
5 Alpha	53,881
6 Foreign	9,000
7 TWX	0
8 Total Directory	<u>62,881</u>

COMMERCIAL OPERATIONS

	<u>Category 2 - Revenue Accounting</u>	<u>Amount</u>
9 Message Processing		25,056
10 OB&C - Expense		71,198
11 Future Use		
12 Future Use		
13 Future Use		74,545
14 Carrier Access Billing		3,559
15 Subscriber Line Charge		
16 Total Category 2		<u>174,358</u>
<u>Category 3 - Other Commercial</u>		
17 Telcom Relay Service		0
18 Other		0
19 Total Category 3		<u>0</u>

PART 36 - DIRECT ASSIGNMENTS

	Interstate		Interstate		Interstate		Interstate		Interstate		Intrastate		Intrastate		Intrastate		Local			
	Company	Message	P/L	Message	P/L	Message	P/L													
1 Account 1500 - Other Jurisdictional A	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2 Account 4360 - Other Deferred Credit	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3 Account 4370 - Other Jur Liab & Def	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4 Account 6540 - Access Expense	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5 Outside Operator Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6 Subscriber Line Charge	3,559	3,559	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7 Telecom. Relay Service (TRS)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8 Account 6720 - Direct Assignments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
9 Account 6720 - Direct EAS	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
10 Account 7240 - Direct Ad Valorem Ta	280,572	280,572	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
10b Account 6540 - Direct USF Contributi	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11 IX Circuit For Other Company	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Duo County Telephone
Study No.: Duo81240
MISCELLANEOUS DATA

Plant Date: 12/31/1998
Expense Date: Mo. Ending 12/31/1998

	Interstate		Intrastate		Interstate		Intrastate		Interstate		Intrastate	
	Company	Message	P/L	Message	Company	Message	P/L	Message	Company	Message	P/L	Message
1 Loops	11,906	11,729	43	0	58	76	0	0	177	0	0	0
2 Circuits	1,471	1,373	24	0	32	42	0	0	98	0	0	0
3 Circuit Miles	62,697.38	58,520.62	1,022.88	0.00	1,363.84	1,790.04	0.00	0.00	4,176.76	0.00	0.00	0.00
4 Wideband Channels	0	0	0	0	0	0	0	0	0	0	0	0
5 STP Circuit Miles	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6 Percent of STP Circuit Miles to Total	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000

	Interstate		Intrastate		Interstate		Intrastate		Interstate		Intrastate	
	Company	Message	P/L	Message	Company	Message	P/L	Message	Company	Message	P/L	Message
7 Billed Messages	4,774,556	2,511,228	0	1,131,664	1,131,664	0	0	0	0	0	0	0
8 Other Units	0	0	0	0	0	0	0	0	0	0	0	0
9 Information Units	0	0	0	0	0	0	0	0	0	0	0	0
10 Future Use	0	0	0	0	0	0	0	0	0	0	0	0
11 TWX Connections	0	0	0	0	0	0	0	0	0	0	0	0
12 TWX Minutes of Use	0	0	0	0	0	0	0	0	0	0	0	0
13 Foreign Directory Cost	9,000	3,000	0	3,000	3,000	0	3,000	0	0	0	0	0
14 Marketing Billing	7,431,547	2,511,228	0	1,131,664	1,131,664	0	1,131,664	0	0	0	2,656,991	0
15 OB&C Expense	71,198	23,731	0	11,868	11,868	0	11,868	0	0	0	23,731	0

Total
Company

Total
Company

0.000000
0.000000
0.000000

0
1,743

25 STP Portion of COE Category 2
26 DSI/VG Multiplexer, Account 2230, Category 4.23
27 Account 6210, Common Channel Signalling Expense to

16 Account 7210 - Amort of Inv Tax Credit
17 Account 7340 - AFUDC
18 Account 7500 - Fixed Charges
19 Account 7540 - Interest on Customer Deposits
20 FIT Adjustment - Addbacks
21 FIT Adjustment - Deducts
22 SIT Adjustment - Addbacks
23 SIT Adjustment - Deducts
24 TRA - 86 Amortization

Duo County Telephone
Study No.: Duo81240
TRAFFIC FACTORS

Plant Date: 12/31/1998
Expense Date: Mo. Ending 12/31/1998

	Interstate InterLATA	Interstate IntraLATA	State InterLATA	State IntraLATA	EAS	Local	Total
1 Tandem Switching Factor	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
2 Weighted Dem	0.353578	0.000000	0.307200	0.127425	0.000000	0.211797	1.000000
3 Wideband Exch Line Circuit Factor	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
4 Exchange Trunk Toll Factor	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
5 Subscriber Plant Factor	0.250000	0.000000	0.150000	0.100000	0.000000	0.500000	1.000000
6 Conversation Minute Factor	0.448589	0.000000	0.389747	0.161664	0.000000	0.000000	1.000000
7 Conversation Minute Miles Factor	0.448589	0.000000	0.389747	0.161664	0.000000	0.000000	1.000000
8 Host Remote Factor	0.141431	0.000000	0.122880	0.050970	0.000000	0.684719	1.000000
9 Subscriber Line Usage Factor	0.141431	0.000000	0.122880	0.050970	0.000000	0.684719	1.000000
10 Exchange Trunk Special Factor	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
11 Equal Access Factor	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
12 Coinless Pay MOU Factor	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
13 IOT Category 2 Factor	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
14 Wideband Conversation Minute Miles	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
15 Carrier Access Billing Factor	0.500000	0.000000	0.250000	0.250000	0.000000	0.000000	1.000000
16 Service Observing BD Factor	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000

Plant Date: 12/31/1998
 Expense Date: Mo. Ending 12/31/1998

Duo County Telephone
 Study No.: Duo81240
 PART 69 - DIRECT ASSIGNMENTS

Input 10

	Total Company	Common Line			Switched Access		Special Access	B&C	IX
		BFP	Pay / Other	Local Sw	Information	Transport			
1 Account 2210 - COE Category 2 STP Portion Re-allocation	0			0	0	0	0		0
2 Account 2230 - COE Category 4.23 - Msg DSI/VG Multiplexer Re-allocation - Spl	0			0	0	36,709	0		0
DSI/VG Multiplexer Re-allocation	0			0	0	0	1,430		0
3 Account 2410 - C&WF Category 3 - Msg - Spl	0			0	0	696,101	27,123		0
STP Transmission Re-allocation	0			0	0	0	FALSE		0
4 Account 6621 - Operator Services	0			0	0	0	0		0
5 Account 6621 - Outside Operator Services	0			0	0	0	0		0
6 Future Use									
7 Account 6210 - COE - Switching - All Other Common Channel Signalling Re-allocation	0			0	0	0	0		0
8 Account 6540 - Direct USF Contribution	0			0	0	0	0		0

Plant Date: 12/31/1998
 Expense Date: Mo. Ending 12/31/1998

Duo County Telephone
 Study No.: Duo81240

Form 1

PART 36

Ln	Acct	Description	Allocation	Interstate		Interstate		EAS	Local								
				Company	Message	InterLATA	InterLATA	InterLATA	InterLATA	InterLATA	InterLATA	InterLATA	InterLATA	Message	P/L		
1	2111	Land	L10	270,908	74,525	1,114	0	0	51,067	1,497	28,874	1,963	316	111,552			
2		General Support	L10	3,467,066	953,763	14,260	0	0	653,552	19,162	369,526	25,122	4,049	1,427,632			
3	2110	Land & General Support	L1-2	3,737,974	1,028,288	15,374	0	0	704,619	20,659	398,400	27,085	4,365	1,539,184			
4	2210	COE - Switching	L45	3,048,549	1,077,900	0	0	936,514	0	388,461	0	0	0	645,674			
5	2220	COE - Operator Systems	L50	0	0	0	0	0	0	0	0	0	0	0			
6	2230	COE - Transmission	L60	1,351,199	324,732	5,315	0	210,914	7,147	127,524	9,370	24,551	641,646				
7		Total COE	L4-6	4,399,748	1,402,632	5,315	0	1,147,428	7,147	515,985	9,370	24,551	1,287,320				
8	2310	Information Orig /Term	L66	0	0	0	0	0	0	0	0	0	0	0			
9	2410	Cable & Wire Facilities	L74	16,625,100	4,381,138	81,162	0	2,815,815	109,054	1,724,878	142,976	0	7,370,077				
10		Total COE, IOT & C&WF	L7-9	21,024,848	5,783,770	86,477	0	3,963,243	116,201	2,240,863	152,346	24,551	8,657,397				
11	2680	Capital Leases	L81	0	0	0	0	0	0	0	0	0	0	0			
12	2680	Leaschold Improvements	L88	0	0	0	0	0	0	0	0	0	0	0			
13	2680	Amortizable Tangibles	L11-12	0	0	0	0	0	0	0	0	0	0	0			
14	2690	Intangibles	L40	67,930	18,687	279	0	12,805	375	7,240	492	79	27,973				
15	2001	Plant In Service	L3, 10, 13, 14	24,830,752	6,830,745	102,130	0	4,680,667	137,235	2,646,503	179,923	28,995	10,224,554				
16	2002	Prop Held For Future Use	L15	0	0	0	0	0	0	0	0	0	0	0			
17	2003	Plant Under Construction	L15	11,810,264	3,248,911	48,576	0	2,226,268	65,273	1,258,758	85,577	13,791	4,863,110				
18	2005	Plant Acquisition Adjustment	L15	0	0	0	0	0	0	0	0	0	0	0			
19	1220	Material & Supplies	L9	267,427	70,474	1,306	0	45,294	1,754	27,746	2,300	0	118,553				
20	1402	Class B RTB Stock	L15	0	0	0	0	0	0	0	0	0	0	0			
21	1410	Other Noncurrent Assets	L175	0	0	0	0	0	0	0	0	0	0	0			
22	1438	Deferred Maint & Retirements	L95	0	0	0	0	0	0	0	0	0	0	0			
23	1439	Def Non-Capital Equal Access	Alloc 13	0	0	0	0	0	0	0	0	0	0	0			
24	1500	Other Jurisdictional Assets	Alloc 19	0	0	0	0	0	0	0	0	0	0	0			
25	CWC	Cash Working Capital	L189	140,656	46,061	419	0	23,268	563	13,868	738	156	55,583				

Duo County Telephone
Study No.: Duo81240

Plant Date: 12/31/1998
Expense Date: Mo. Ending 12/31/1998

PART 36

Ln	Acct	Description	Allocation	Interstate		Interstate		EAS	Local								
				InterLATA	InterLATA	InterLATA	InterLATA										
				Message	P/L	Message	P/L										
26	3100	Depreciation Reserve	L102	4,125,696	55,829	0	0	2,896,168	75,022	1,588,277	98,358	26,744	5,884,352				
27	3200	Res - Prop Held for Future Use	L16	0	0	0	0	0	0	0	0	0	0				
28	3400	Res - Capital leases	L13	0	0	0	0	0	0	0	0	0	0				
29	3400	Res - Leasehold Improvements	L13	0	0	0	0	0	0	0	0	0	0				
30	3500	Res - Intangible	L14	0	0	0	0	0	0	0	0	0	0				
31	3600	Res - Plant Acquisition Adj	L15	0	0	0	0	0	0	0	0	0	0				
32		Total Reserves	L 26-31	4,125,696	55,829	0	0	2,896,168	75,022	1,588,277	98,358	26,744	5,884,352				
33	4040	Customer Deposits	L15	0	0	0	0	0	0	0	0	0	0				
34	4100	Current Deferred Op Taxes	L109	0	0	0	0	0	0	0	0	0	0				
35	4310	Other Long Term Liabilities	L175	0	0	0	0	0	0	0	0	0	0				
36	4340	Non-Current Def Oper Taxes	L116	0	0	0	0	0	0	0	0	0	0				
37	4360	Other Deferred Credits	Alloc 48	0	0	0	0	0	0	0	0	0	0				
38	4370	Oth Juris Liab & Def Credits	Alloc 41	0	0	0	0	0	0	0	0	0	0				
39		Net Investment	L15-25 Less L32-38	6,070,495	96,602	0	0	4,079,329	129,803	2,358,598	170,180	16,198	9,377,448				
40		Total 2001 Less 2690	L 3, 10, 13	6,812,058	101,851	0	0	4,667,862	136,860	2,639,263	179,431	28,916	10,196,581				
41		Total 2001 Less Associated Res	L15-19,24 Less L32,34	6,024,434	96,183	0	0	4,056,061	129,240	2,344,730	169,442	16,042	9,321,865				

36-38

PART 36

Ln	Acct	Description	Allocation	Interstate		Interstate		Interstate		Interstate		Interstate		EAS	Local
				InterLATA	Message	InterLATA	Message	InterLATA	Message	InterLATA	Message	InterLATA	Message		
Central Office Switching - Acct 2210															
42	2210	Cat 2 - Tandem Switching	Alloc 2	0	0	0	0	0	0	0	0	0	0	0	0
43	2210	Cat 3 - Local Switching	Alloc 3	3,048,549	1,077,900	0	0	936,514	388,461	0	0	0	0	0	645,674
44	2210	Cat 5 - Equal Access	Alloc 13	0	0	0	0	0	0	0	0	0	0	0	0
45	Total	2210	L42-44	3,048,549	1,077,900	0	0	936,514	388,461	0	0	0	0	0	645,674

Central Office Operator Systems - Acct 2220

46	2220	Cat 1 - Operator Systems	Alloc 24	0	0	0	0	0	0	0	0	0	0	0	0
47		Intercept Boards	Alloc 47	0	0	0	0	0	0	0	0	0	0	0	0
48		Information Boards	Alloc 67	0	0	0	0	0	0	0	0	0	0	0	0
49		Service Observing Boards	Alloc 1	0	0	0	0	0	0	0	0	0	0	0	0
50	Total	2220	L46-49	0	0	0	0	0	0	0	0	0	0	0	0

Central Office Transmission - Acct 2230

51	2230	Cat 4.11 - Wdbd Exch Ln Cir	Alloc 4	0	0	0	0	0	0	0	0	0	0	0	0
52	2230	Cat 4.121 - Exch Trunk EAS	Alloc 5	24,550	0	0	0	0	0	0	0	24,550	0	0	0
53	2230	Cat 4.122 - Exch Trunk Toll	Alloc 6	0	0	0	0	0	0	0	0	0	0	0	0
54	2230	Cat 4.123 - Exch Trunk Spl	Alloc 7	0	0	0	0	0	0	0	0	0	0	0	0
55	2230	Cat 4.13 - Exch Ln Circuit	Alloc 8	1,075,740	264,937	3,885	0	158,962	5,240	105,975	6,867	0	0	529,874	0
56	2230	Cat 4.21 - IX Cct - Other Co	Alloc 9	0	0	0	0	0	0	0	0	0	0	0	0
57	2230	Cat 4.22 - IX Cct - Wdbd	Alloc 10	0	0	0	0	0	0	0	0	0	0	0	0
58	2230	Cat 4.23 - IX Cct - Other	Alloc 11	87,674	36,709	1,430	0	31,894	1,907	13,229	2,503	1	1	0	0
59	2230	Cat 4.3 - Host Remote	Alloc 12	163,235	23,086	0	0	20,058	8,320	0	0	0	0	111,771	0
60	Total	2230	L51-59	1,351,199	324,732	5,315	0	210,914	7,147	127,524	9,370	24,551	0	641,646	0

PART 36

Ln	Acct	Description	Allocation	Total Company		Interstate		EAS	Local								
				InterLATA	Message	InterLATA	Message	InterLATA	Message	InterLATA	Message	InterLATA	Message	InterLATA	Message		
61	2351	Cat 1 - Pub Tel (Less Coinless)	Alloc 14	0	0	0	0	0	0	0	0	0	0	0	0	0	0
62	2351	Cat 1 - Pub Tel (Coinless)	Alloc 15	0	0	0	0	0	0	0	0	0	0	0	0	0	0
63	2362	Cat 1 - Other Terminal Equip	Alloc 14	0	0	0	0	0	0	0	0	0	0	0	0	0	0
64		Total Category 1	L61-63	0	0	0	0	0	0	0	0	0	0	0	0	0	0
65		Cat 2 - Customer Premise	Alloc 16	0	0	0	0	0	0	0	0	0	0	0	0	0	0
66		Total 2310	L64-65	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Cable and Wire Facilities - Acct 2410

67	2410	Cat 1 - Exch Ln CWF	Alloc 17	14,962,590	3,685,037	54,039	0	0	2,211,022	72,890	1,474,015	95,511	0	7,370,076	0	0	0
68	2410	Cat 2.1 - Exch Trk CWF - EAS	Alloc 5	0	0	0	0	0	0	0	0	0	0	0	0	0	0
69	2410	Cat 2.2 - Exch Trk CWF - Toll	Alloc 6	0	0	0	0	0	0	0	0	0	0	0	0	0	0
70	2410	Cat 2.3 - Exch Trk CWF - Spl	Alloc 7	0	0	0	0	0	0	0	0	0	0	0	0	0	0
71	2410	Cat 2.4 - Exch Trk CWF - Wb	Alloc 10	0	0	0	0	0	0	0	0	0	0	0	0	0	0
72	2410	Cat 3 - IX C&WF	Alloc 18	1,662,510	696,101	27,123	0	0	604,793	36,164	250,863	47,465	0	1	0	0	0
73	2410	Cat 4 - Host / Remote C&WF	Alloc 12	0	0	0	0	0	0	0	0	0	0	0	0	0	0
74		Total 2410	L67-73	16,625,100	4,381,138	81,162	0	0	2,815,815	109,054	1,724,878	142,976	0	7,370,077	0	0	0

Plant Date: 12/31/1998
 Expense Date: Mo. Ending 12/31/1998

Duo County Telephone
 Study No.: Duo81240

Form 5

PART 36

Ln	Acct	Description	Allocation	Total Company	Interstate		EAS	Local								
					InterLATA	Message										
<u>Tangible Assets - Capital Leases - Acct 2680</u>																
75	2110	General Support Facilities	L3	0	0	0	0	0	0	0	0	0	0	0	0	0
76	2210	COE - Switching	L4	0	0	0	0	0	0	0	0	0	0	0	0	0
77	2220	COE - Operator Systems	L5	0	0	0	0	0	0	0	0	0	0	0	0	0
78	2230	COE - Transmission	L6	0	0	0	0	0	0	0	0	0	0	0	0	0
79	2310	Information Orig/Term	L8	0	0	0	0	0	0	0	0	0	0	0	0	0
80	2410	Cable & Wire Facilities	L9	0	0	0	0	0	0	0	0	0	0	0	0	0
81	Total 2681		L75-80	0	0	0	0	0	0	0	0	0	0	0	0	0

Tangible Assets - Leasehold Improvements - Acct 2680

82	2110	General Support Facilities	L3	0	0	0	0	0	0	0	0	0	0	0	0	0
83	2210	COE - Switching	L4	0	0	0	0	0	0	0	0	0	0	0	0	0
84	2220	COE - Operator Systems	L5	0	0	0	0	0	0	0	0	0	0	0	0	0
85	2230	COE - Transmission	L6	0	0	0	0	0	0	0	0	0	0	0	0	0
86	2310	Information Orig/Term	L8	0	0	0	0	0	0	0	0	0	0	0	0	0
87	2410	Cable & Wire Facilities	L9	0	0	0	0	0	0	0	0	0	0	0	0	0
88	Total 2682		L82-87	0	0	0	0	0	0	0	0	0	0	0	0	0

Deferred Maint & Retirements Acct 1438

89	2110	General Support Facilities	L3	0	0	0	0	0	0	0	0	0	0	0	0	0
90	2210	COE - Switching	L4	0	0	0	0	0	0	0	0	0	0	0	0	0
91	2220	COE - Operator Systems	L5	0	0	0	0	0	0	0	0	0	0	0	0	0
92	2230	COE - Transmission	L6	0	0	0	0	0	0	0	0	0	0	0	0	0
93	2310	Information Orig/Term	L8	0	0	0	0	0	0	0	0	0	0	0	0	0
94	2410	Cable & Wire Facilities	L9	0	0	0	0	0	0	0	0	0	0	0	0	0
95	Total 1438		L89-94	0	0	0	0	0	0	0	0	0	0	0	0	0

Duo County Telephone
Study No.: Duo81240

Plant Date: 12/31/1998
Expense Date: Mo. Ending 12/31/1998

PART 36

Ln	Acct	Description	Allocation	Total Company	Interstate		Interstate		Interstate		Interstate		Intrastate		Intrastate		Local
					InterLATA	InterLATA											
					Message	P/L											
<u>Accumulated Depreciation - Acct 3100</u>																	
96	2110	General Support Facilities	L3	1,877,988	516,620	7,724	0	0	354,006	10,379	200,159	13,608	2,193	773,299			
97	2210	COE - Switching	L4	2,756,152	974,515	0	0	846,690	0	351,202	0	0	0	583,745			
98	2220	COE - Operator Systems	L5	0	0	0	0	0	0	0	0	0	0	0			
99	2230	COE - Transmission	L6	1,351,199	324,732	5,315	0	210,914	7,147	127,524	9,370	24,551	641,646				
100	2310	Information Orig /Term	L8	0	0	0	0	0	0	0	0	0	0				
101	2410	Cable & Wire Facilities	L9	8,765,107	2,309,829	42,790	0	1,484,558	57,496	909,392	75,380	0	3,885,662				
102	Total 3100		L96-101	14,750,446	4,125,696	55,829	0	2,896,168	75,022	1,588,277	98,358	26,744	5,884,352				

Net Current Deferred Operating Income Taxes - Acct 4100

103	2110	General Support Facilities	L3	0	0	0	0	0	0	0	0	0	0	0			
104	2210	COE - Switching	L4	0	0	0	0	0	0	0	0	0	0	0			
105	2220	COE - Operator Systems	L5	0	0	0	0	0	0	0	0	0	0	0			
106	2230	COE - Transmission	L6	0	0	0	0	0	0	0	0	0	0	0			
107	2310	Information Orig /Term	L8	0	0	0	0	0	0	0	0	0	0	0			
108	2410	Cable & Wire Facilities	L9	0	0	0	0	0	0	0	0	0	0	0			
109	Total 4100		L103-108	0	0	0	0	0	0	0	0	0	0	0			

Net Noncurrent Deferred Operating Income Taxes - Acct 4340

110	2110	General Support Facilities	L3	0	0	0	0	0	0	0	0	0	0	0			
111	2210	COE - Switching	L4	0	0	0	0	0	0	0	0	0	0	0			
112	2220	COE - Operator Systems	L5	0	0	0	0	0	0	0	0	0	0	0			
113	2230	COE - Transmission	L6	0	0	0	0	0	0	0	0	0	0	0			
114	2310	Information Orig /Term	L8	0	0	0	0	0	0	0	0	0	0	0			
115	2410	Cable & Wire Facilities	L9	0	0	0	0	0	0	0	0	0	0	0			
116	Total 4340		L110-115	0	0	0	0	0	0	0	0	0	0	0			

Plant Date: 12/31/1998
Expense Date: Mo. Ending 12/31/1998

Duo County Telephone
Study No.: Duo81240

Form 7

PART 36

Ln	Acct	Description	Allocation	Company	Interstate		Intrastate		InterLATA		IntraLATA		InterLATA		IntraLATA		EAS	Local
					Message	P/L	Message	P/L	Message	P/L	Message	P/L	Message	P/L				
<u>Plant Specific Expenses</u>																		
117	6110	Network Support	L3	4,746	1,306	20	0	0	895	26	506	34	6	1,953				
118	6120	General Support	L3	171,329	47,131	705	0	0	32,296	947	18,261	1,241	200	70,548				
119	6210	COE - Switching - Eq. Access	Alloc 13	0	0	0	0	0	0	0	0	0	0	0				
120	6210	COE - Switching - All Other	L7	339,571	108,255	410	0	0	88,558	552	39,824	723	1,895	99,354				
121	6220	COE - Operator Systems	L7	0	0	0	0	0	0	0	0	0	0	0				
122	6230	COE - Transmission	L7	10,433	3,326	13	0	0	2,721	17	1,224	22	58	3,052				
123		Total COE	L119-122	350,004	111,581	423	0	0	91,279	569	41,048	745	1,953	102,406				
124	6310	IOT - Other	L64	0	0	0	0	0	0	0	0	0	0	0				
125	6310	IOT - Customer Premise	Alloc 16	0	0	0	0	0	0	0	0	0	0	0				
126		Total 6310	L124-125	0	0	0	0	0	0	0	0	0	0	0				
127	6410	Cable & Wire Facilities	L9	828,677	218,378	4,046	0	0	140,354	5,436	85,976	7,127	0	367,360				
128		Total Plant Specific	L117,118,123,126-127	1,354,756	378,396	5,194	0	0	264,824	6,978	145,791	9,147	2,159	542,267				

Duo County Telephone
Study No.: Duo81240

PART 36

Plant Date: 12/31/1998
Expense Date: Mo. Ending 12/31/1998

Ln	Acct	Description	Allocation	Interstate		Intrastate		Interstate		Intrastate		Interstate		Intrastate		EAS	Local
				InterLATA	Message	InterLATA	Message	InterLATA	Message	InterLATA	Message	InterLATA	Message	InterLATA	Message		
Plant Non-Specific Expenses																	
129	6510	Other Prop Plant & Equip	L15	0	0	0	0	0	0	0	0	0	0	0	0	0	0
130	6530	Network Operations	L10	184,478	2,758	0	0	126,411	3,706	71,474	4,859	0	0	0	0	783	276,137
131	6540	Access	Alloc 20	0	0	0	0	0	0	0	0	0	0	0	0	0	0
131a	6540	Universal Service Assignment	Alloc 35	0	0	0	0	0	0	0	0	0	0	0	0	0	0
132	6561	Depreciation	L3	72,241	1,080	0	0	49,502	1,451	27,989	1,903	0	0	0	0	307	108,134
133		Dep - Support Assets	L4	166,681	0	0	0	144,817	0	60,069	0	0	0	0	0	0	99,844
134		Dep - COE Switching	L5	0	0	0	0	0	0	0	0	0	0	0	0	0	0
135		Dep - COE Operator	L6	49,779	815	0	0	32,332	1,096	19,549	1,436	0	0	0	0	3,764	98,359
136		Dep - COE Transmission	L8	0	0	0	0	0	0	0	0	0	0	0	0	0	0
137		Dep - IOT	L9	560,715	10,387	0	0	360,379	13,957	220,757	18,299	0	0	0	0	0	943,251
138		Dep - Cable & Wire Facilities	L132-137	849,416	12,282	0	0	587,030	16,504	328,364	21,638	0	0	0	0	4,071	1,249,588
		Total 6561		3,068,893	849,416	0	0	1,033,894	15,040	713,441	20,210	399,838	26,497	4,854	1,525,725		
139	6562	Dep - Prop Held for Fut Use	L15	0	0	0	0	0	0	0	0	0	0	0	0	0	0
140	6563	Amort - Tangible Assets	L13	0	0	0	0	0	0	0	0	0	0	0	0	0	0
141	6564	Amort - Intangible Assets	L14	0	0	0	0	0	0	0	0	0	0	0	0	0	0
142	6565	Amort - Acquisition Adjust	L15	0	0	0	0	0	0	0	0	0	0	0	0	0	0
143		Total Plant Non-Specific	L129-142 Less 138	3,739,499	1,033,894	15,040	0	713,441	20,210	399,838	26,497	4,854	1,525,725				
Customer Operations Expenses																	
144	6610	Marketing	Alloc 43	4,885	0	0	0	2,201	0	2,201	0	0	0	0	0	0	5,168
145	6621	Operator	L50	0	0	0	0	0	0	0	0	0	0	0	0	0	0
146		Outside Operator Services	Alloc 42	0	0	0	0	0	0	0	0	0	0	0	0	0	0
147	6622	Directory	Alloc 22	0	0	0	0	0	0	0	0	0	0	0	0	0	0
148		Classified	Alloc 23	0	0	0	0	0	0	0	0	0	0	0	0	0	0
149		TWX	Alloc 24	7,620	0	0	0	6,621	0	2,746	0	0	0	0	0	0	36,894
150		Alpha	Alloc 25	3,000	0	0	0	3,000	0	3,000	0	0	0	0	0	0	0
151		Foreign	L147-150	10,620	0	0	0	9,621	0	5,746	0	0	0	0	0	0	36,894
		Total 6622		62,881	10,620	0	0	9,621	0	5,746	0	0	0	0	0	0	36,894

Duo County Telephone
Study No.: Duo81240

Plant Date: 12/31/1998
Expense Date: Mo. Ending 12/31/1998

PART 36

Ln	Acct	Description	Allocation	Interstate		Intrastate		Interstate		Intrastate		Interstate		Intrastate		EAS	Local
				InterLATA	Message												
6623 Commercial Operations																	
Cat 1 - Local Business Office																	
152		End User service order processing															
		Presubscription	Alloc 26	6,396													0
153		Directory Advertising	Alloc 27	0													0
154		All other	Alloc 28	0													115,242
155		End User payment & collector	Alloc 21	36,821													36,821
156		End User billing inquiry	Alloc 30	17,216	5,604												11,612
157		IXC service order processing	Alloc 32	0													0
158		IXC payment and collection	Alloc 33	0													0
159		IXC billing inquiry	Alloc 34	0													0
160		Future Use															
161		Total Category 1	L152-160	175,675	12,000	0	0	0	0	0	0	0	0	0	0	0	163,675
Cat 2 - Revenue Accounting																	
162		Message Processing	Alloc 36	25,056	13,178												0
163		OB&C - Expense	Alloc 38	71,198	23,731												23,731
164		Future Use															
165		Future Use															
166		Future Use															
167		Carrier Access Billing	Alloc 44	74,545	37,273												0
168		Subscriber Line Charge	Alloc 29	3,559	3,559												0
169		Total Category 2	L162-168	174,358	77,741	0	0	0	0	36,443	0	36,443	0	0	0	0	23,731
170		Subtotal Categories 1 & 2	L161,169	350,033	89,741	0	0	0	0	36,443	0	36,443	0	0	0	0	187,406

Duo County Telephone
Study No.: Duo81240

PART 36

Plant Date: 12/31/1998
Expense Date: Mo. Ending 12/31/1998

Ln	Acct	Description	Allocation	Total Company	Interstate InterLATA Message P/L	EAS	Local					
Category 3 - Other Commercial												
171		Telcom Relay Service	Alloc 45	0	0	0	0	0	0	0	0	0
172		Other	L170	0	0	0	0	0	0	0	0	0
173		Total Commercial Operations	L170-172	350,033	89,741	0	0	36,443	0	36,443	0	187,406
174		Total Customer Operations	L144-146,151,173	427,369	105,246	0	0	48,265	0	44,390	0	229,468
175		Total Big Three Expenses	L123,126-127,130,174 (less L119)	2,276,656	619,683	7,227	0	406,309	9,711	242,888	12,731	975,371
Corporate Operations Expenses												
176	6710	Executive & Planning	L175	261,452	71,165	830	0	46,661	1,115	27,893	1,462	112,012
177	6720	General & Administrative	Alloc 46	0	0	0	0	0	0	0	0	0
178		Other Direct	Alloc 31	0	0	0	0	0	0	0	0	0
179		Direct to EAS	L175	694,370	189,001	2,204	0	123,922	2,962	74,080	3,883	297,484
180		Other	L177-179	694,370	189,001	2,204	0	123,922	2,962	74,080	3,883	297,484
181		Total Corporate Operations	L176,180	955,822	260,166	3,034	0	170,583	4,077	101,973	5,345	409,496
182		Total Operating Expenses	L128,143,174,181	6,477,446	1,777,702	23,268	0	1,197,113	31,265	691,992	40,989	2,706,956
Operating Taxes												
183		Future Use		0	0	0	0	0	0	0	0	0
184	7240	Ad Valorem Taxes - Allocated	L15	280,572	280,572	0	0	0	0	0	0	0
185	7240	Ad Valorem Taxes - Direct	Alloc 40	280,572	280,572	0	0	0	0	0	0	0
186		Total 7240	L183-185	561,144	561,144	0	0	0	0	0	0	0
187	7370	Special Charges	L181	14,082	3,833	45	0	2,513	60	1,502	79	6,033
188		Total Operating Exp & Taxes	L182,186,187	6,772,100	2,062,107	23,313	0	1,199,626	31,325	693,494	41,068	2,712,989
189		Total Operating Exp & Taxes (Less Depreciation)	L188 Less 138-142	3,703,207	1,212,691	11,031	0	612,596	14,821	365,130	19,430	1,463,401

Plant Date: 12/31/1998
Expense Date: Mo. Ending 12/31/1998

Duo County Telephone
Study No.: Duo81240

Form 11

PART 36

Ln	Acct	Description	Allocation	Total Company	Interstate Message	InterLATA P/L	Interstate Message	InterLATA P/L	Interstate Message	InterLATA P/L	Intrastate Message	Intrastate P/L	EAS	Local
Tax Adjustments														
190	7210	Investment Tax Credits		0	0	0	0	0	0	0	0	0	0	0
191		TRA-86 Amortization	L15	0	0	0	0	0	0	0	0	0	0	0
192		Total	L15 L190-191	0	0	0	0	0	0	0	0	0	0	0
193	7340	AFUDC	L17	1,743	479	7	0	329	10	186	13	2	717	
194		FIT Adjustments - Addbacks	L15	0	0	0	0	0	0	0	0	0	0	0
195		FIT Adjustments - Deductions	L15	0	0	0	0	0	0	0	0	0	0	0
196		Total FIT Adjustments	L194-195	0	0	0	0	0	0	0	0	0	0	0
197		SIT Adjustments - Addbacks	L15	0	0	0	0	0	0	0	0	0	0	0
198		SIT Adjustments - Deductions	L15	0	0	0	0	0	0	0	0	0	0	0
199		Total SIT Adjustments	L197-198	0	0	0	0	0	0	0	0	0	0	0
200	7500	Fixed Charges	L41	0	0	0	0	0	0	0	0	0	0	0
201	7540	Interest On Customer Dep	L41	0	0	0	0	0	0	0	0	0	0	0
Rent Revenues Account 5240														
202	2110	General Support Facilities	L3	0	0	0	0	0	0	0	0	0	0	0
203	2210	COE - Switching	L4	0	0	0	0	0	0	0	0	0	0	0
204	2220	COE - Operator Systems	L5	0	0	0	0	0	0	0	0	0	0	0
205	2230	COE - Transmission	L6	0	0	0	0	0	0	0	0	0	0	0
206	2310	Information Orig/Term	L8	0	0	0	0	0	0	0	0	0	0	0
207	2410	Cable & Wire Facilities	L9	0	0	0	0	0	0	0	0	0	0	0
208		Total 5240	L202-207	0	0	0	0	0	0	0	0	0	0	0
209		Total Operating Exp & Taxes (Including 7540 / Net of 5240)	L188+201 Less 208	6,772,100	2,062,107	23,313	0	1,199,626	31,325	693,494	41,068	8,178	2,712,989	

Duo County Telephone Cooperative Corporation, Inc. (Revised)

For Year Ended 12/31/1998

Date: 3/30/00

<u>Revenues</u>		<u>Revenues Per Ledger 12/31/98</u>	<u>Part 64 Adjustments</u>	<u>Other Adjustments</u>	<u>Revenues Per Study 12/31/98</u>
1 Local Service	5001	\$2,108,135	\$0	\$0	\$2,108,135
2 Local Calling Plans	5002	\$0	\$0	\$0	\$0
3 Mobile	5004	\$0	\$0	\$0	\$0
4 Public Telephone	5010	\$0	\$0	\$0	\$0
5 Local Private Line	5040	\$21,539	\$0	\$0	\$21,539
6 Customer Premise Equipment	5050	\$0	\$0	\$0	\$0
7 Other Local Revenue	5060	\$527,317	\$0	\$0	\$527,317
8 Other Exchange Settlements	5069	\$0	\$0	\$0	\$0
9 End User	5081	\$520,194	\$0	\$0	\$520,194
10 Switched Access Less USF	5082.1	\$1,966,683	\$0	\$0	\$1,966,683
11 Universal Service Fund		\$0	\$0	\$0	\$0
12 Special Access	5082.2	\$24,351	\$0	\$0	\$24,351
13 State Access	5086.1	\$2,263,327	\$0	\$0	\$2,263,327
14 Long Distance Message	5100	\$0	\$0	\$0	\$0
15 Inwats Revenue	5111	\$0	\$0	\$0	\$0
16 Outwats Revenue	5112	\$0	\$0	\$0	\$0
17 Toll Private Line	5120	\$0	\$0	\$0	\$0
18 Other Long Distance	5160	\$0	\$0	\$0	\$0
19 Directory	5230	\$144,463	\$0	\$0	\$144,463
20 Rent	5240	\$6,687	\$0	\$0	\$6,687
21 Corporate Operations	5250	\$0	\$0	\$0	\$0
22 Special Billing Arrangements	5261	\$0	\$0	\$0	\$0
23 Customer Operations	5262	\$2,701	\$0	\$0	\$2,701
24 Plant Operations	5263	\$0	\$0	\$0	\$0
25 Other Incidental Regulated	5264	\$15,797	\$0	\$0	\$15,797
26 Other Settlements	5269	\$0	\$0	\$0	\$0
27 Billing & Collection	5270	\$575,282	\$0	\$0	\$575,282
28 Nonregulated	5280	\$735,400	(\$735,400)	\$0	\$0
29 Total Revenues		\$8,911,876	(\$735,400)	\$0	\$8,176,476
30 Less Gross Receipts					\$0
31 Total Revenues (see note)					\$8,176,476

Note: Under a regulated earnings environment, total revenues are equated to total costs, including a return/profit component.

Duo County Telephone Cooperative Corporation, Inc. (Revised)

EXHIBIT-04

Adusted Commission Staff Method with Order Adjustments

Line	Account Description	A	B	C	D
		Per Study 12/31/98	Local & IntraLATA toll Per Study 12/31/98	%	Avoided Costs Total
<u>Direct Accounts</u>					
1	6611 Product Management	\$ -	\$ -	90.00%	\$ -
2	6612 Sales	\$ -	\$ -	90.00%	\$ -
3	6613 Product Advertising	\$ 14,455	\$ 7,369	90.00%	\$ 6,632
4	6621 Call Completion	\$ -	\$ -	0.00%	\$ -
5	6622 Number Service	\$ 62,881	\$ 42,640	0.00%	\$ -
6	6623 Customer Services	\$ 350,032	\$ 223,849	64.35%	\$ 144,048
7	Total Direct	\$ 427,368	\$ 273,858		\$ 150,680
8	Total Operating Expense	\$ 6,777,522			
8a	Total Operating Expense less accounts 5301, 7240, 7370	\$ 6,477,445			
8b	Total Direct Operating Expense less accounts 7240, 7370	\$ 5,350,294			
<u>Indirect Accounts</u>					
9	6711 Executive	\$ 261,452		2.82%	\$ 7,363
10	6712 Planning	\$ -		2.82%	\$ -
11	6721 Accounting & Finance	\$ 162,019		2.82%	\$ 4,563
12	6722 External Relations	\$ 174,650		2.82%	\$ 4,919
13	6723 Human Resources	\$ 16,836		2.82%	\$ 474
14	6724 Information Management	\$ 162,458		2.82%	\$ 4,575
15	6725 Legal	\$ 18,448		2.82%	\$ 520
16	6726 Procurement	\$ 12,836		2.82%	\$ 361
17	6727 Research & Development	\$ -		2.82%	\$ -
18	6728 Other G&A	\$ 147,123		2.82%	\$ 4,143
19	6121 Land and Buildings	\$ 115,570		2.82%	\$ 3,255
20	6122 Furniture	\$ 2,543		2.82%	\$ 72
21	6123 Office Equipment	\$ 28,510		2.82%	\$ 803
22	6124 General P Computer	\$ 24,706		2.82%	\$ 696
23	5301 Uncollectible Revenue	\$ 5,423		2.82%	\$ 153
24	Total Indirect	\$ 1,132,574			\$ 31,897
25	Total Direct + Indirect	\$ 1,559,942			\$ 182,577
26	Total Cost=Total Revenue	\$ 8,176,476			
27	Total Retail Revenue*	\$ 3,940,070			
28	Avoidable Discount				4.63%
29	Cost Onset	\$ 28,597			0.73%
30	Net Avoidable Discount				3.90%

* Total Retail Revenue computation

Retail Revenue (USOA 5001-5010, 5040,5050,5060,5069)	\$ 2,656,991	
Federal Universal Service Support	\$ -	
Intrastate IntraLATA toll revenue (Duo County portion)	\$ 777,964	(Total revenue is \$808,305)
Intrastate IntraLATA NTSR local support revenue	\$ 148,893	
Intrastate InterLATA NTSR local support revenue	\$ 356,222	
Total Retail Revenue	\$ 3,940,070	



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
211 SOWER BOULEVARD
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

March 21, 2000

William W. Magruder
Daryl L. Hammond
Duo County Telephone Cooperative
Corporation, Inc.
1021 West Cumberland Avenue
P. O. Box 80
Jamestown, KY. 42629

Honorable Howard Kent Cooper
Attorney at Law
Howard Kent Cooper
Monument Square
P. O. Box 410
Jamestown, KY. 42629 0410

RE: Case No. 1999-376

We enclose one attested copy of the Commission's Order in
the above case.

Sincerely,


Stephanie Bell
Secretary of the Commission

SB/sa
Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

DUO COUNTY TELEPHONE'S)
AVOIDED COST METHODOLOGY) CASE NO. 99-376
AND STUDY)

O R D E R

Duo County Rural Telephone Cooperative Corporation, Inc. ("Duo County") prepared an avoided cost study pursuant to the Commission's Order in Administrative Case No. 355 and the Federal Communications Commission's ("FCC") rules in Docket No. 96-325.¹ An informal conference was held to discuss the first submission of Duo County. Subsequent to the informal conference Duo County filed an additional study. In connection to the study most recently filed, the Commission has additional questions.

IT IS THEREFORE ORDERED that Duo County shall respond to the following requests for information within 20 days of the date of this Order:

1. Provide source documentation and/or analysis to determine intrastate intraLATA toll revenue. If the source document is not the analysis produced by BellSouth Telecommunications, Inc. ("BellSouth") in determining settlements between class A and class B carriers, explain why BellSouth's analysis was not used.
2. Provide source documentation and/or analysis to determine intrastate, intraLATA non-traffic sensitive revenue ("NTSR") local support revenue and intrastate,

¹ Administrative Case No. 355, An Inquiry Into Local Competition, Universal Service, and the Non-Traffic Sensitive Access Rate.

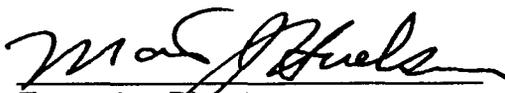
interLATA NTSR local support revenue. Explain in detail: (1) what intrastate interLATA and intraLATA NTSR local support revenue represents, (2) the inputs used in the determination of Item 1, (3) the entity which provides the revenue flow, and (4) the analysis showing the calculation of the NTSR support revenue reflected in the avoided cost study.

3. Provide a copy of the study performed by John Staurulakis, Inc. ("JSI") that determined "local costs." Also include a revenue study that separates revenue in the same manner as that used in the cost study. Do the expenses noted as local in the revised study include intrastate toll revenues? If not, explain why not. If not, why should the revenue denominator include intraLATA toll revenues?

Done at Frankfort, Kentucky, this 21st day of March, 2000.

By the Commission

ATTEST:


Executive Director



RECEIVED
FEB 24 2000
PUBLIC SERVICE
COMMISSION

February 22, 2000

Mr. Martin J. Huelsmann, Executive Director
Kentucky Public Service Commission
P. O. Box 615
Frankfort, KY 40602-0615

RE: PSC Case No. 99-376

Please find enclosed the original and ten (10) copies of additional documents that need to be filed in the record of the above-referenced case. Our consultant, John Staurulakis, has prepared the enclosed memorandum comparing the calculation of avoided cost as outlined in the Staff Method with Duo County Telephone Cooperative's Proposed Method. Our initial Proposed Method is shown in Exhibit_01 using total cost as the denominator. Enclosed in the memorandum as Exhibit_02 is the proposed Staff Method using retail revenues as the denominator. Exhibit_03 reflects proposed adjustments to the Staff Method.

As shown in the attachments, the results of the Proposed Method and the adjusted Staff Method are similar. The net avoidable discount for the Proposed Method and the Staff Method is 2.96% and 3.10%, respectively. The two methods are similar in results; however, the two methods are not similar in the amount of work required to develop the discounts. We believe the Commission should allow our Proposed Method because it is administratively efficient and does not require preparation of cost studies for all small local exchange carriers. If the Commission should choose to adopt a retail revenue method, we strongly recommend inclusion of the adjustments that we have proposed in the adjusted Staff Method as shown in Exhibit 03.

We are available to meet and discuss with the staff any questions regarding our Proposed Method or the adjustments to the Staff Method.

Should you have any questions, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Hammond", is written over a horizontal line.

Daryl L. Hammond
Controller

DLH:spe
Enclosures



Memorandum

TO: Daryl Hammond
Duo County Telephone Cooperative Corporation, Inc.

FROM: Douglas Meredith
301.459.7590
dm@jsi.net

DATE: February 17, 2000

SUBJECT: Avoidable Discount Study – Comparison of Staff Method.

I have reviewed the Commission Staff worksheet titled *1998 Duo County* and make the following response to the Staff Method. In this memorandum, I compare the Staff Method and the Proposed Method for Duo County Telephone Cooperative Corporation, Inc. (Duo County). To be truly reflective of revenues and supports for retail services, I conclude that adjustments are necessary for the Staff Method. Upon making allowable adjustments to the Staff Method the results of the Proposed Method and the adjusted Staff Method are similar. Because of the administrative ease in using the proposed method for average schedule companies, I recommend that the Commission adopt the Proposed Method for small LECs in Kentucky.

Proposed Method

1. Attached to this memorandum is Exhibit-01 that reports the Proposed Method for Duo County using total cost as a denominator.
2. The Proposed Method results are identical to the results that the state commission staff reviewed with one exception. Upon detailed review of account 5301, JSI cites the following from the *Local Competition Order*, FCC 96-325, ¶918.

“General support expenses (accounts 6121-6124), corporate operations expenses (accounts 6711, 6612, 6721-6728), and telecommunications uncollectibles (account 5301) are presumed to be avoided in proportion to the avoided direct expenses identified in the previous paragraph.” (Emphasis added)

From this review of the FCC’s treatment of indirectly avoidable costs, account 5301 is to be treated as an indirectly avoidable cost and therefore the proportional

percentage used for indirect accounts should be used for account 5301. Exhibit-01 Line 23 shows the percentage avoidable as 3.5 percent rather than 100 percent. This reduces the net avoidable discount by 0.06 percent.

3. The following are features of the Proposed Method that will be contrasted by the Staff Method:
 - a. To compute the indirect expense percentage, the Proposed Method uses Total Direct Expenses (Line 7, Column D) divided by Total Operating Expenses (Line 8, Column A).
 - b. The Proposed Method rebuts the presumption that any expense reported in Accounts 6722-External Relations, 6725-Legal, 6726-Procurement, and 6728 Research and Development would be avoided.
 - c. To compute the Avoidable Discount (Line 28, Column D), the Proposed Method uses Total Direct + Indirect Expenses (Line 25, Column D) divided by Total Cost = Total Revenue (Line 26, Column A). This computation is administratively easy to apply to all tier two companies and as will be shown below, this computation is especially administratively efficient for tier two companies who are average schedule LECs for interstate purposes.
 - d. The Proposed Method computes a Cost Onset (Line 29, Column A) to derive a Net Avoidable Discount (Line 30, Column D), consistent with FCC discussion in the *Local Competition Order*.
4. The Proposed Method Net Avoidable Discount is 2.96 percent (Line 30, Column D).

Staff Method

5. In contrast to the Proposed Method, the Staff Method has several methodological differences. In this section, I will discuss each difference. (See Exhibit-02 for a summary of the Staff Method) In the subsequent section, I will suggest adjustments to the Staff Method allowable under federal rules governing local competition and that are consistent with the use of retail revenues as a denominator.
6. **Denominator:** The major feature of the Staff Method is that it uses retail revenues as the denominator to compute the avoidable discount. Many large local exchange carriers (LECs) use retail revenues in the denominator for determining a wholesale discount. Using a large LECs method for small LECs creates distortions in the discount percentage. The fact that small LECs do not have large retail revenues in comparison to other revenue sources, such as access revenue, can cause a distortion when using only retail revenue accounts in the denominator. While large LECs have been allowed to classify intraLATA toll revenue as retail revenue, the Staff Method



does not recognize this revenue for Duo County. (See following section for proposed adjustments to retail revenues.)

7. **Indirect Avoided Percentage:** The Staff Method uses total direct expense as the denominator for computing the indirect avoided percentage. Moreover, the Staff Method omits certain direct expenses in its denominator. The two accounts that are omitted from consideration are accounts 7240-ad valorem taxes and 7370-special charges. This omission results in a reduction of \$294,654 or 6 percent of direct expenses. The effect of this omission increases the indirect avoided percentage.
8. **Indirect Accounts:** The Staff Method rejects the rebuttal provided by Duo County that certain accounts will not be avoidable.
9. **Cost Onsets:** The Staff Method rejects the inclusion of cost onsets for Duo County in developing a wholesale service.
10. The result of using the Staff Method is a avoidable discount of 11.06 percent.

Adjustments to Staff Method

11. In review of the Staff Method, I recommend the following adjustments for the Staff Method. In making these adjustments, I continue to recommend that the Proposed Method is superior to the Staff Method, because the effect of the adjustments is to bring the net avoidable discount to approximately the same level as the Proposed Method. Hence, there is no economic effect of using the Staff Method and there is administrative efficiency in using the Proposed Method for tier-two average schedule LECs. I report the result of the adjustments in Exhibit-03.
12. **Retail Revenue:** In using a retail revenue method, I recommend two adjustments.
 - a. The first adjustment is to identify effective retail revenue rather than use traditional retail revenue accounts. In computing effective retail revenue, I make adjustments that include federal universal service support revenue, intraLATA toll revenue and access support revenue that is designed to reduce local or retail rates. Regarding access support revenue, I include the intrastate intraLATA and interLATA NTSR as retail support revenue. I include this support revenue because in its absence, small LECs would necessarily see the residual revenue requirement increase in the local jurisdiction. Residually derived local retail rates would face upward pressure to recover the revenue requirement deficiency. The result of these additions results in total retail revenue amounting to \$3,970,411 (unadjusted retail revenue was \$2,656,991). JSI uses the sum of these revenue sources to reflect adjustments to retail revenues inasmuch as these revenues support local rates low in accordance with universal service principles.



- b. While state commissions are familiar with wholesale discount models for large LECs, it is important not to overlook certain allowable considerations for small LECs in determining a wholesale discount. When using a retail revenue model, JSI recommends that LECs use the alternative method of computing the numerator as allowed by FCC rules and described in the FCC Local Competition Order. The applicable rule for the numerator is 47 CFR 51.609(d):

“Costs included in accounts 6611-6613 and 6621-6623 described in paragraph (c) of this section may be included in wholesale rates only to the extent that the incumbent LEC proves to a state commission that specific costs in these accounts will be incurred and are not avoidable with respect to services sold at wholesale, or that specific costs in these accounts are not included in the retail prices of resold services.” (Emphasis added)

I understand that this rule allows LECs to show that certain costs in directly avoidable accounts are not included in its retail rates. This consideration is relevant especially for small LECs whose local rates are residually derived. Because of strong public policy considerations, small LECs allocate many operational costs to interstate and intrastate access services thereby allowing small LECs to offer basic telephone services at low local rates. The FCC rule allows LECs to demonstrate the residually derived costs for local service and use these costs in the numerator.

Duo County is an average schedule company and consequently does not perform an annual cost study for cost-separation purposes. To respond to the Staff Method, JSI performed a *pro forma* annual cost study for Duo County. This cost study separates costs in expense accounts to interstate, intrastate and local jurisdictions. The results of this study provide the local portion of accounts 6611-6613 and 6621-6623. I report these amounts in the column captioned “Local Per Study 12/31/98” (Exhibit-03, Column C). The net effect of this adjustment is the reduction in direct account expenses by \$197,400 (Exhibit-03, Line 7 Column A-B).

13. **Account 5301:** As shown in the Proposed Method summary, this account should be considered an indirect avoidable account. Exhibit-03 (Line 23, Column C) reports the indirect percentage of 2.34 percent instead of 100 percent. The reason for following the indirect percentage is the same reasoning for applying a percentage avoidable for direct accounts. The FCC recognizes that the LEC will continue to operate in a retail environment and consequently these expenses will not be 100 percent avoidable.
14. **Cost Onsets:** The FCC discussion governing avoidable cost allow for cost onsets that are beyond the percentages identified for direct and indirect accounts. As has been
-



discussed, the cost onsets are for costs associated with beginning operations as a wholesale provider.

- 15. Other Considerations :** To show the Adjusted Staff Method in comparison to the Proposed Method, JSI has omitted other minor considerations in Exhibit-03. For instance, the rebuttable presumption of indirect accounts and the computation of the indirect avoidable percentage have been not been changed from the Staff Method. Duo County recognizes that after the adoption of the Proposed Method, that commission staff may want to address these other considerations.

Comparison Summary

16. The Net Avoidable Discount for the adjusted Staff Method 3.10 percent. As I demonstrated, the adjusted Staff Method result is similar to the Proposed Method result; however, the two methods are not similar in the work required to develop the discounts. The Proposed Method (total cost) is administratively easy to apply; for example, average schedule LECs do not have to perform an annual cost study to determine the local portion of accounts 6611-6613 and 6621-6623.
17. JSI conducted the comparative analysis in Exhibit-03 to show that with proper adjustments, the Staff Method is similar in result to the Proposed Method. Since the results are similar, the Commission should adopt the administratively easy method to determine avoidable discounts for small LECs in Kentucky.



Duo County Telephone Cooperative Corporation, Inc. (Revised)

EXHIBIT-01

Summary of Proposed Method

Line	Account Description	A Per Study 12/31/98	B	C		D	
				%	Total	Avoided Costs	
<u>Direct Accounts</u>							
1	6611 Product Management	\$ -		90%	\$ -		
2	6612 Sales	\$ -		90%	\$ -		
3	6613 Product Advertising	\$ 14,455		90%	\$ 13,010		
4	6621 Call Completion	\$ -		0%	\$ -		
5	6622 Number Service	\$ 62,881		0%	\$ -		
6	6623 Customer Services	\$ 350,032		64%	\$ 225,248		
7	Total Direct	\$ 427,368			\$ 238,258		
8	Total Operating Expense	\$ 6,777,522					
<u>Indirect Accounts</u>							
9	6711 Executive	\$ 261,452		3.5%	\$ 9,151		
10	6712 Planning	\$ -		3.5%	\$ -		
11	6721 Accounting & Finance	\$ 162,019		3.5%	\$ 5,671		
12	6722 External Relations	\$ 174,650		0.0%	\$ -		
13	6723 Human Resources	\$ 16,836		3.5%	\$ 589		
14	6724 Information Management	\$ 162,458		3.5%	\$ 5,686		
15	6725 Legal	\$ 18,448		0.0%	\$ -		
16	6726 Procurement	\$ 12,836		0.0%	\$ -		
17	6727 Research & Development	\$ -		0.0%	\$ -		
18	6728 Other G&A	\$ 147,123		3.5%	\$ 5,149		
19	6121 Land and Buildings	\$ 115,570		3.5%	\$ 4,045		
20	6122 Furniture	\$ 2,543		3.5%	\$ 89		
21	6123 Office Equipment	\$ 28,510		3.5%	\$ 998		
22	6124 General P Computer	\$ 24,706		3.5%	\$ 865		
23	5301 Uncollectible Revenue	\$ 5,423		3.5%	\$ 190		
24	Total Indirect	\$ 1,132,574			\$ 32,433		
25	Total Direct + Indirect	\$ 1,559,942			\$ 270,691		
26	Total Cost=Total Revenue	\$ 8,176,476					
27							
28	Avoidable Discount						3.31%
29	Cost Onset	\$ 28,597					0.35%
30	Net Avoidable Discount						2.96%

Duo County Telephone Cooperative Corporation, Inc. (Revised)

EXHIBIT-02

Summary of Commission Staff Method

Line	Account Description	A	B	C	D
		Per Study 12/31/98		Avoided Costs	
				%	Total
<u>Direct Accounts</u>					
1	6611 Product Management	\$ -		90.00%	\$ -
2	6612 Sales	\$ -		90.00%	\$ -
3	6613 Product Advertising	\$ 14,455		90.00%	\$ 13,010
4	6621 Call Completion	\$ -		0.00%	\$ -
5	6622 Number Service	\$ 62,881		0.00%	\$ -
6	6623 Customer Services	\$ 350,032		64.35%	\$ 225,248
7	Total Direct	\$ 427,368			\$ 238,258
8	Total Operating Expense	\$ 6,777,522			
	Total Operating Expense less accounts				
8a	5301, 7240, 7370	\$ 6,477,445			
	Total Direct Operating Expense less				
8b	accounts 7240, 7370	\$ 5,350,294			
<u>Indirect Accounts</u>					
9	6711 Executive	\$ 261,452		4.45%	\$ 11,643
10	6712 Planning	\$ -		4.45%	\$ -
11	6721 Accounting & Finance	\$ 162,019		4.45%	\$ 7,215
12	6722 External Relations	\$ 174,650		4.45%	\$ 7,777
13	6723 Human Resources	\$ 16,836		4.45%	\$ 750
14	6724 Information Management	\$ 162,458		4.45%	\$ 7,235
15	6725 Legal	\$ 18,448		4.45%	\$ 822
16	6726 Procurement	\$ 12,836		4.45%	\$ 572
17	6727 Research & Development	\$ -		4.45%	\$ -
18	6728 Other G&A	\$ 147,123		4.45%	\$ 6,552
19	6121 Land and Buildings	\$ 115,570		4.45%	\$ 5,147
20	6122 Furniture	\$ 2,543		4.45%	\$ 113
21	6123 Office Equipment	\$ 28,510		4.45%	\$ 1,270
22	6124 General P Computer	\$ 24,706		4.45%	\$ 1,100
23	5301 Uncollectible Revenue	\$ 5,423		100.00%	\$ 5,423
24	Total Indirect	\$ 1,132,574			\$ 55,617
25	Total Direct + Indirect	\$ 1,559,942			\$ 293,875
26	Total Cost=Total Revenue	\$ 8,176,476			
27	Retail Revenue*	\$ 2,656,991			
28	Avoidable Discount				11.06%
29	Cost Onset	\$ -			0.00%
30	Net Avoidable Discount				11.06%

* Only retail revenue accounts

Duo County Telephone Cooperative Corporation, Inc. (Revised)
 Summary of ADJUSTED Commission Staff Method

EXHIBIT-03

Line	Account Description	A	B	C	D
		Per Study 12/31/98	Local Per Study 12/31/98	%	Avoided Costs Total
<u>Direct Accounts</u>					
1	6611 Product Management	\$ -	\$ -	90.00%	\$ -
2	6612 Sales	\$ -	\$ -	90.00%	\$ -
3	6613 Product Advertising	\$ 14,455	\$ 5,168	90.00%	\$ 4,651
4	6621 Call Completion	\$ -	\$ -	0.00%	\$ -
5	6622 Number Service	\$ 62,881	\$ 36,894	0.00%	\$ -
6	6623 Customer Services	\$ 350,032	\$ 187,406	64.35%	\$ 120,597
7	Total Direct	\$ 427,368	\$ 229,468		\$ 125,248
8	Total Operating Expense	\$ 6,777,522			
	Total Operating Expense less accounts				
8a	5301, 7240, 7370	\$ 6,477,445			
	Total Direct Operating Expense less				
8b	accounts 7240, 7370	\$ 5,350,294			
<u>Indirect Accounts</u>					
9	6711 Executive	\$ 261,452		2.34%	\$ 6,120
10	6712 Planning	\$ -		2.34%	\$ -
11	6721 Accounting & Finance	\$ 162,019		2.34%	\$ 3,793
12	6722 External Relations	\$ 174,650		2.34%	\$ 4,088
13	6723 Human Resources	\$ 16,836		2.34%	\$ 394
14	6724 Information Management	\$ 162,458		2.34%	\$ 3,803
15	6725 Legal	\$ 18,448		2.34%	\$ 432
16	6726 Procurement	\$ 12,836		2.34%	\$ 300
17	6727 Research & Development	\$ -		2.34%	\$ -
18	6728 Other G&A	\$ 147,123		2.34%	\$ 3,444
19	6121 Land and Buildings	\$ 115,570		2.34%	\$ 2,705
20	6122 Furniture	\$ 2,543		2.34%	\$ 60
21	6123 Office Equipment	\$ 28,510		2.34%	\$ 667
22	6124 General P Computer	\$ 24,706		2.34%	\$ 578
23	5301 Uncollectible Revenue	\$ 5,423		2.34%	\$ 127
24	Total Indirect	\$ 1,132,574			\$ 26,513
25	Total Direct + Indirect	\$ 1,559,942			\$ 151,761
26	Total Cost=Total Revenue	\$ 8,176,476			
27	Total Retail Revenue*	\$ 3,970,411			
28	Avoidable Discount				3.82%
29	Cost Onset	\$ 28,597			0.72%
30	Net Avoidable Discount				3.10%

* Total Retail Revenue computation

Retail Revenue (USOA 5001-5010, 5040,5050,5060,5069)	\$ 2,656,991
Federal Universal Service Support	\$ -
Intrastate IntraLATA toll revenue	\$ 808,305
Intrastate IntraLATA NTSR local support revenue	\$ 148,893
Intrastate InterLATA NTSR local support revenue	\$ 356,222
Total Retail Revenue	\$ 3,970,411



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
211 Sower Boulevard
POST OFFICE BOX 615
FRANKFORT, KENTUCKY 40602
www.psc.state.ky.us
(502) 564-3940

February 14, 2000

PARTIES OF RECORD:

Re: Case No. 99-376
DUO COUNTY TELEPHONE'S
AVOIDED COST METHODOLOGY AND STUDY

Enclosed please find a memorandum that has been filed in the record of the above-referenced case. Any comments regarding this memorandum's contents should be submitted to the Commission within five days of receipt of this letter. Any questions regarding this memorandum should be directed to Amy Dougherty at 502/564-3940, Extension 257.

Sincerely,

A handwritten signature in black ink, appearing to read "Martin J. Huelsmann".

Martin J. Huelsmann
Executive Director

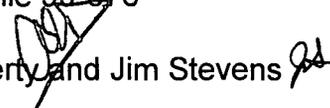
AD/v

Attachment

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Main Case File 99-376

FROM: Amy Dougherty and Jim Stevens 

DATE: February 14, 2000

RE: Duo County Telephone's Avoided Cost Methodology And Study
Case No. 99-376

On January 11, 2000, Duo County met with the Commission Staff. Attached is a list of those who attended. The differences in the calculations of the Company and the Staff were discussed. The Company's calculation was done by a consulting firm experienced in developing avoided cost studies for small telecommunications companies. The Staff based its calculation on its previous work in cases involving BellSouth, CBT, and GTE.

Duo County explained the rationale for its calculations and asserted that it should not necessarily calculate its avoided costs as the Commission has for BellSouth, CBT, and GTE because it is a tier-two company. Duo County asserts that, because it does not do separations studies for intrastate and interstate costs, it should use total company revenues to match total company expenses. Duo County also asserts that because of its size, it will not realize reductions in expenses in Accounts 6722, External Affairs; 6725, Legal; 6726, Procurement; and 6727, Research and Development. Duo County also included in its study cost onsets resulting from being required to resell its services.

The Staff and Duo County also discussed the inclusion of toll revenues and USF revenues and an alternative way to include toll revenues in the calculation. The Company does not record toll revenues, only access revenues.

The Staff calculation used only revenues available for resale of \$2,656,991. In addition the Staff used the total expenses of 6,477,445 and included accounts 6722, 6725, 6726, and 6727 in its calculation of indirect avoidable costs. The Staff also did not include the addition of cost onsets in its calculation. Attached is the Staff's calculation of the avoided costs of Duo County.

Duo County agreed to file information concerning its rationale for the calculation and to justify the differences in tier-two company calculations. Also, Duo County is to review the Staff's recommended calculation and file a written response.

vh/
Attachments/2

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

DUO COUNTY TELEPHONE'S)
AVOIDED COST METHODOLOGY) CASE NO. 99-376
AND STUDY)

INFORMAL CONFERENCE

JANUARY 11, 2000

<u>NAME</u>	<u>REPRESENTS</u>
<u>Amy E. Donaherty</u>	<u>PSC</u>
<u>Bill Auer</u>	<u>PSC</u>
<u>Jim Stevens</u>	<u>PSC</u>
<u>Bill Magruder</u>	<u>Duo County</u>
<u>Daryl Hammond</u>	<u>Duo County</u>
<u>Douglas Meredith</u>	<u>(via conference call) JSI</u>
<u>Jeff Johnson</u>	<u>PSC</u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

January 6, 2000

William W. Magruder
Executive Vice President
Duo County Telephone Cooperative
Corporation, Inc.
1021 West Cumberland Avenue
P. O. Box 80
Jamestown, KY. 42629

Honorable Howard Kent Cooper
Attorney at Law
Howard Kent Cooper
Monument Square
P. O. Box 410
Jamestown, KY. 42629 0410

RE: Case No. 1999-376

We enclose one attested copy of the Commission's Order in
the above case.

Sincerely,


Stephanie Bell
Secretary of the Commission

SB/sa
Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

DUO COUNTY TELEPHONE'S)
AVOIDED COST METHODOLOGY) CASE NO. 99-376
AND STUDY)

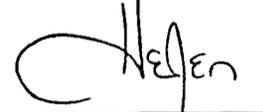
O R D E R

The Commission, on its own motion, HEREBY ORDERS that an informal conference is scheduled for January 11, 2000 at 1:30 p.m., Eastern Standard Time, in Conference Room 1 of the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky.

Done at Frankfort, Kentucky, this 6th day of January, 2000.

By the Commission

ATTEST:


Executive Director





William W. Magruder
Executive Vice President
and General Manager

RECEIVED
NOV 19 1999
PUBLIC SERVICE
COMMISSION

November 18, 1999

Ms. Helen C. Helton, Executive Director
Kentucky Public Service Commission
P. O. Box 615
Frankfort, KY 40602-0615

RE: PSC Case No. 99-376
Duo County Telephone Coop. Corp., Inc. - Avoidable Cost Study

Please find enclosed the original and ten (10) copies of Duo County Telephone Cooperative's revised avoidable cost study. Our consultant, John Staurulakis, Inc., made minor adjustments to bring the study in line with the annual commission report and responded to revisions suggested by the Commission staff.

Thank you for your assistance in this matter. Should you have any questions, don't hesitate to contact me.

Sincerely,

William W. Magruder
General Manager

WWM:spe
Enclosures

Duo County Telephone "REVISED"

For Year Ended 12/31/1998

Date: 11/8/99

	<u>Source</u>	<u>Amount</u>
1. Direct Avoided Costs	Page 2, Ln 32	\$238,258
2. Indirect Avoidable Costs	Page 3, Ln 19	\$37,666
3. Total Avoidable Costs	Ln 1 + Ln 2	<u>\$275,924</u>
4. Total Costs	Page 5, Ln 31	\$8,176,476
5. Avoided Cost Percentage	Ln 3 / Ln 4	3.37%
6. Cost Onsets	Page 4, Ln 13	\$28,597
7. Total Costs	Page 5, Ln 31	\$8,176,476
8. Onset Cost Percentage	Ln 6 / Ln 7	0.35%
9. Net Avoided Cost Percentage	Ln 5 - Ln 8	3.02%

Duo County Telephone "REVISED"

For Year Ended 12/31/1998

Date: 11/8/99

		<u>Per Study</u> <u>12/31/98</u>	<u>Percent</u> <u>Avoided</u>	<u>Avoided</u> <u>Costs</u>
1 Product Management	6611	\$0	90%	\$0
2 Sales	6612	\$0	90%	\$0
3 Product Advertising	6613	\$14,455	90%	\$13,010
4 Operator - Information	6621	\$0	0%	\$0
5 Operator - ONI	6621	\$0	0%	\$0
6 Operator - Other	6621	\$0	0%	\$0
7 Outside Operator - Information	6621	\$0	0%	\$0
8 Outside Operator - ONI	6621	\$0	0%	\$0
9 Outside Operator - Other	6621	\$0	0%	\$0
10 White Page Directory	6622	\$53,881	0%	\$0
11 Foreign Directories	6622	\$9,000	0%	\$0
12 Local Order Processing	6623	\$115,242	75% 1	\$86,432
13 PIC Change Charges	6623	\$6,395	0%	\$0
14 Payment & Collection	6623	\$36,821	100%	\$36,821
15 Local Bill Inquiry	6623	\$11,612	100%	\$11,612
16 Toll Bill Inquiry	6623	\$2,003	100%	\$2,003
17 Special Service Bill Inquiry	6623	\$0	100%	\$0
18 SLC Bill Inquiry	6623	\$3,601	100%	\$3,601
19 IXC Switched Order Processing	6623	\$0	0%	\$0
20 IXC Special Order Processing	6623	\$0	0%	\$0
21 IXC B&C Order Processing	6623	\$0	0%	\$0
22 IXC Payment & Collection	6623	\$0	0%	\$0
23 IXC Switched Bill Inquiry	6623	\$0	0%	\$0
24 IXC Special Bill Inquiry	6623	\$0	0%	\$0
25 IXC B&C Bill Inquiry	6623	\$0	0%	\$0
26 Coin Collection & Counting	6623	\$0	0%	\$0
27 Rating	6623	\$10,022	100%	\$10,022
28 Message Processing	6623	\$15,034	0%	\$0
29 Other Billing & Collection	6623	\$74,757	100%	\$74,757
30 CABs Billing Expense	6623	\$74,545	0%	\$0
31 Cost of Avoided Investment				\$0
32 Total Direct Avoided Costs		<u>\$427,368</u>		<u>\$238,258</u>

1. Assumes that Service Orders from resellers will come in bulk format or through direct electronic interface - therefore, LEC will continue to process orders, but at a reduced quantity / time. Assumed the reduction to be 75%.

Duo County Telephone "REVISED"

For Year Ended 12/31/1998

Date: 11/8/99

	<u>Amount</u> <u>12/31/98</u>
1 Direct Avoided Costs	\$238,258
2 Total Expenses	\$6,777,522
3 Percent Avoided of Total	3.5%

<u>Overheads</u>		<u>Per Study</u> <u>12/31/98</u>	<u>Percent</u> <u>Avoidable</u>	<u>Avoided</u> <u>Costs</u>
4 Executive	6711	\$261,452	3.5%	\$9,151
5 Planning	6712	\$0	3.5%	\$0
6 Accounting & Finance	6721	\$162,019	3.5%	\$5,671
7 External Affairs	6722	\$174,650	0.0%	\$0
8 Human Resources	6723	\$16,836	3.5%	\$589
9 Information Management	6724	\$162,458	3.5%	\$5,686
10 Legal	6725	\$18,448	0.0%	\$0
11 Procurement	6726	\$12,836	0.0%	\$0
12 Research & Development	6727	\$0	0.0%	\$0
13 Other General & Admin	6728	\$147,123	3.5%	\$5,149
14 Repair of buildings	6121	\$115,570	3.5%	\$4,045
15 Repair of Furniture	6122	\$2,543	3.5%	\$89
16 Repair of Office Equipment	6123	\$28,510	3.5%	\$998
17 Repair of Computers	6124	\$24,706	3.5%	\$865
18 Uncollectibles	5301	\$5,423	100.0%	\$5,423
19 Indirect Avoidable Costs		<u>\$1,132,574</u>		<u>\$37,666</u>

Duo County Telephone "REVISED"

For Year Ended 12/31/1998

Date: 11/8/99

<u>Recurring Onsets</u>	<u>Amount</u>
1 Billing Wholesalers	\$32
2 Wholesaler Bill Inquiry	\$1,161
3 Customer Inquiry Referrals	\$3,274
4 Wholesaler Payment & Collection	\$16
5 Audit of Cross-Class Usage	\$2,500
6 Onset Indirect	\$244
7 Total Recurring Onsets	\$7,227
<u>Non-Recurring Onsets</u>	
8 Cost of Study	\$3,500
9 Severance Pay	\$14,240
10 Software Billing Development	\$25,000
11 Cost of Tariff	\$0
12 Total Non-recurring Onsets	\$42,740
13 Amortization Over 2 Years	\$21,370
14 Total Onsets	\$28,597

Duo County Telephone "REVISED"

For Year Ended 12/31/1998

Date: 11/8/99

Revenues		Revenues Per Ledger 12/31/98	Part 64 Adjustments	Other Adjustments	Revenues Per Study 12/31/98
1 Local Service	5001	\$2,108,135	\$0	\$0	\$2,108,135
2 Local Calling Plans	5002	\$0	\$0	\$0	\$0
3 Mobile	5004	\$0	\$0	\$0	\$0
4 Public Telephone	5010	\$0	\$0	\$0	\$0
5 Local Private Line	5040	\$21,539	\$0	\$0	\$21,539
6 Customer Premise Equipment	5050	\$0	\$0	\$0	\$0
7 Other Local Revenue	5060	\$527,317	\$0	\$0	\$527,317
8 Other Exchange Settlements	5069	\$0	\$0	\$0	\$0
9 End User	5081	\$520,194	\$0	\$0	\$520,194
10 Switched Access Less USF	5082.1	\$1,966,683	\$0	\$0	\$1,966,683
11 Universal Service Fund		\$0	\$0	\$0	\$0
12 Special Access	5082.2	\$24,351	\$0	\$0	\$24,351
13 State Access	5086.1	\$2,263,327	\$0	\$0	\$2,263,327
14 Long Distance Message	5100	\$0	\$0	\$0	\$0
15 Inwats Revenue	5111	\$0	\$0	\$0	\$0
16 Outwats Revenue	5112	\$0	\$0	\$0	\$0
17 Toll Private Line	5120	\$0	\$0	\$0	\$0
18 Other Long Distance	5160	\$0	\$0	\$0	\$0
19 Directory	5230	\$144,463	\$0	\$0	\$144,463
20 Rent	5240	\$6,687	\$0	\$0	\$6,687
21 Corporate Operations	5250	\$0	\$0	\$0	\$0
22 Special Billing Arrangements	5261	\$0	\$0	\$0	\$0
23 Customer Operations	5262	\$2,701	\$0	\$0	\$2,701
24 Plant Operations	5263	\$0	\$0	\$0	\$0
25 Other Incidental Regulated	5264	\$15,797	\$0	\$0	\$15,797
26 Other Settlements	5269	\$0	\$0	\$0	\$0
27 Billing & Collection	5270	\$575,282	\$0	\$0	\$575,282
28 Nonregulated	5280	\$735,400	(\$735,400)	\$0	\$0
29 Total Revenues		\$8,911,876	(\$735,400)	\$0	\$8,176,476
30 Less Gross Receipts					\$0
31 Total Revenues (see note)					\$8,176,476

Note: Under a regulated earnings environment, total revenues are equated to total costs, including a return/profit component.

Input Section

Duo County Telephone "REVISED"

For Year Ended 12/31/1998

Date: 11/8/99

<u>REVENUES</u>		<u>Revenues</u> <u>Per Ledger</u> <u>12/31/98</u>	<u>Part 64</u> <u>Adjustments</u>	<u>Other</u> <u>Adjustments</u>
1 Local Service	5001	\$2,108,135	\$0	\$0
2 Local Calling Plans	5002	\$0	\$0	\$0
3 Mobile	5004	\$0	\$0	\$0
4 Public Telephone	5010	\$0	\$0	\$0
5 Local Private Line	5040	\$21,539	\$0	\$0
6 Customer Premise Equipment	5050	\$0	\$0	\$0
7 Other Local Revenue	5060	\$527,317	\$0	\$0
8 Other Exchange Settlements	5069	\$0	\$0	\$0
9 End User	5081	\$520,194	\$0	\$0
10 Switched Access Less USF	5082.1	\$1,966,683	\$0	\$0
11 Universal Service Fund		\$0	\$0	\$0
12 Special Access	5082.2	\$24,351	\$0	\$0
13 State Access	5086.1	\$2,263,327	\$0	\$0
14 Long Distance Message	5100	\$0	\$0	\$0
15 Inwats Revenue	5111	\$0	\$0	\$0
16 Outwats Revenue	5112	\$0	\$0	\$0
17 Toll Private Line	5120	\$0	\$0	\$0
18 Other Long Distance	5160	\$0	\$0	\$0
19 Directory	5230	\$144,463	\$0	\$0
20 Rent	5240	\$6,687	\$0	\$0
21 Corporate Operations	5250	\$0	\$0	\$0
22 Special Billing Arrangements	5261	\$0	\$0	\$0
23 Customer Operations	5262	\$2,701	\$0	\$0
24 Plant Operations	5263	\$0	\$0	\$0
25 Other Incidental Regulated	5264	\$15,797	\$0	\$0
26 Other Settlements	5269	\$0	\$0	\$0
27 Billing & Collection	5270	\$575,282	\$0	\$0
28 Nonregulated	5280	\$735,400	(\$735,400)	\$0

<u>EXPENSES</u>		<u>Per Ledger</u> <u>12/31/98</u>	<u>Part 64</u> <u>Adjustments</u>	<u>Other</u> <u>Adjustments</u>
29 Network Support Expense	6110	\$4,746	\$0	\$0
30 Repair of Buildings	6121	\$115,570	\$0	\$0
31 Repair of Furniture	6122	\$2,543	\$0	\$0
32 Repair of Office Equipment	6123	\$28,510	\$0	\$0
33 Repair of Computers	6124	\$24,706	\$0	\$0
34 Central Office Switching	6210	\$337,786	(\$288)	\$0

Input Section

Duo County Telephone "REVISED"

For Year Ended 12/31/1998

Date: 11/8/99

35 Operator Expense	6220	\$2,073	\$0	\$0
36 Central Office Transmission	6230	\$10,958	(\$525)	\$0
37 Info Orig & Term	6310	\$253,431	(\$253,431)	\$0
38 Cable & Wire	6410	\$828,677	\$0	\$0
39 Total Plant Specific		<u>\$1,609,000</u>	<u>(\$254,244)</u>	<u>\$0</u>
40 Other Prop & Equip	6510	\$0	\$0	\$0
41 Network Operations	6530	\$644,145	\$0	\$26,461
42 Access Expense	6540	\$57,538	\$0	(\$57,538)
43 Depreciation	6561	\$3,145,008	(\$76,115)	\$0
44 Amortization	6563	\$0	\$0	\$0
45 Total Plant Non-Specific		<u>\$3,846,691</u>	<u>(\$76,115)</u>	<u>(\$31,077)</u>
46 Product Management	6611	\$0	\$0	\$0
47 Sales	6612	\$0	\$0	\$0
48 Product Advertising	6613	\$14,455	\$0	\$0
49 Operator - Information	6621	\$0	\$0	\$0
50 Operator - ONI	6621	\$0	\$0	\$0
51 Operator - Other	6621	\$0	\$0	\$0
52 Outside Operator - Information	6621	\$18,143	\$0	(\$18,143)
53 Outside Operator - ONI	6621	\$0	\$0	\$0
54 Outside Operator - Other	6621	\$7,482	\$0	(\$7,482)
55 White / Yellow Page Directory	6622	\$53,881	\$0	\$0
56 Foreign Directories	6622	\$9,000	\$0	\$0
57 Executive	6711	\$261,452	\$0	\$0
58 Planning	6712	\$0	\$0	\$0
59 Accounting & Finance	6721	\$162,019	\$0	\$0
60 External Affairs	6722	\$174,650	\$0	\$0
61 Human Resources	6723	\$16,836	\$0	\$0
62 Information Management	6724	\$162,458	\$0	\$0
63 Legal	6725	\$18,448	\$0	\$0
64 Procurement	6726	\$12,836	\$0	\$0
65 Research & Development	6727	\$0	\$0	\$0
66 Other General & Admin	6728	\$210,514	(\$93,428)	\$30,037
67 Total Corporate		<u>\$1,019,213</u>	<u>(\$93,428)</u>	<u>\$30,037</u>
68 Ad Valorem Taxes	7240	\$242,144	(\$910)	\$39,338
69 Special Charges	7370	\$14,082	\$0	\$0
70 Uncollectibles	5301	\$5,423	\$0	\$0
70.5 Gross Receipts	7240	\$0	\$0	\$0

Input Section

Duo County Telephone "REVISED"

For Year Ended 12/31/1998

Date: 11/8/99

6623 DETAIL

71 Commercial Per Ledger	\$534,764		
72 Less Deregulated Expense	(48,882)		
73 Other Adjustments	<u>(310,208)</u>	0.321484	\$230,857
74 Commercial Per Study	\$175,674		

	<u>Time Study Percent</u>		
75 Order Processing	37.13%	103,630	
76 PIC Change Charges	3.64%	10,159	
77 Payment & Collection	20.96%	58,499	
78 Local Bill Inquiry	6.61%	18,449	
79 Toll Bill Inquiry	1.14%	3,182	
80 Special Service Bill Inquiry	0.00%	-	
81 SLC Bill Inquiry	2.05%	5,722	
82 IXC Switched Order Processing	0.00%	-	
83 IXC Special Order Processing	0.00%	-	
84 IXC B&C Order Processing	0.00%	-	
85 IXC Payment & Collection	0.00%	-	
86 IXC Switched Bill Inquiry	0.00%	-	
87 IXC Special Bill Inquiry	0.00%	-	
88 IXC B&C Bill Inquiry	0.00%	-	
89 Coin Collection & Counting	<u>28.47%</u>	79,460	other adj
90 Total Commercial per Study	100.0%	279,100	

6627 DETAIL

91 Revenue Accounting Per Ledger	\$0		
92 Less Deregulated Expense	\$0		
93 Other Adjustments	<u>\$174,359</u>	0.242658	
94 Revenue Accounting Per Study	\$174,359		

	<u>1Q98</u>	<u>2Q98</u>	<u>3Q98</u>	<u>4Q98/Annual</u>	<u>Total</u>
95 Total RAS	\$0	\$0	\$0	\$3,559	\$3,559
96 Total RAM	\$0	\$0	\$0	\$25,056	\$25,056
97 Total RAB	\$0	\$0	\$0	\$71,198	\$71,198
98 Total RAC	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$74,545</u>	<u>\$74,545</u>
	\$0	\$0	\$0	\$174,358	\$174,358

Duo County Telephone "REVISED"

For Year Ended 12/31/1998

Date: 11/8/99

AVOIDED INVESTMENTS

99 Operator - Information	2220	\$0
100 Operator - ONI	2220	\$0
101 Operator - Other	2220	\$0
102 Total Avoided Investment		\$0

Avoided Reserves

103 Operator - Information	3100	\$0
104 Operator - ONI	3100	\$0
105 Operator - Other	3100	\$0
105 Total Avoided Reserves		\$0

Avoided Expenses

106 Operator Equip - Maintenance	6220	\$0
107 Operator Equip - Depreciation	6561-2220	\$0

108 Return @	11.25%
109 FIT @	0.00%
110 SIT @	0.00%
111 GRT / PUC FEE @	0.00%

COST ONSETS

112 Audit of Cross-Class Usage	\$2,500	JSI Assumption
113 Access Lines 12/31/98	11,729	Per NECA 1050
114 Weighted Commercial Wage rate	\$22.82	Per Company
115 Weighted Operator Wage rate	\$0.00	n/a
116 Cost of Avoidable study	\$3,500	JSI Assumption
117 Cost of Avoidable tariff update	\$0	
118 % of Wages/Total Commercial	44.5%	Calculated per company info.
119 % of Wages/Total Operator	0.0%	Calculated
120 # of Potential Resellers in Market Area	5	JSI Assumption
121 Market Penetration of Resellers Assumed (as a % of Access Lines)	10.0%	JSI Assumption
122 Number of Customer Service Rep's	5	Per the company
123 Customer Inquiry Cost per Access Line	\$0.12	Calculated
124 Gross Receipts Tax Rate	0.00%	
125 Gross Earnings Tax Rate	0.00%	

ALLTEL COMMUNICATIONS

One Allied Drive
Little Rock, AR 72203-2177



Larry Krajci
Staff Manager - State Government Affairs
501-905-5342
501-905-5679 fax

September 30, 1999

RECEIVED

OCT 04 1999

PUBLIC SERVICE
COMMISSION

Ms. Helen C. Helton
Executive Director
Kentucky Public Service Commission
730 Schenkel Lane
P.O. Box 615
Frankfort, KY 40602

RE: Administrative Case No. 355-An Inquiry into Local Competition, Universal Service and the Non-Traffic Sensitive Access Rate.

Case No. 99-376-Approving Duo County's Avoided Cost Methodology and Study.

Dear Ms. Helton:

This letter is in response to the Commission's September 22, 1999 Order in the above noted proceedings. ALLTEL Kentucky, Inc. (ALLTEL) hereby notifies the Commission of its intent to defer filing an avoided cost study. In filing this notice, ALLTEL, however, is not waiving any applicable exemptions and reserves the right to seek suspensions or modifications under Section 251(f) of the Telecommunication Act of 1996.

Please call me at (501) 905-5342 if there are any questions concerning this notice.

Sincerely,

Handwritten signature of Larry Krajci in cursive script.
Larry Krajci

Cc: Rick Taylor



RECEIVED
OCT 01 1999
PUBLIC SERVICE
COMMISSION

Ms. Helen Helton, Esq.
Executive Director
Kentucky Public Service Commission
730 Schenkel Lane
Frankfort, KY 40602

Re: **Administrative Case No. 355 – An inquiry into Local Competition, Universal Service and the Non-Traffic Sensitive Access Rate and**

Case No. 99-376 – Approving Duo County's Avoided Cost Methodology and Study

Dear Ms. Helton:

Pursuant to the Kentucky Public Service Commission's Order in Case No. 99-376, North Central Telephone Cooperative, Inc., P. O. Box 70, 872 E. Hwy. 52 Bypass, Lafayette, TN 37083, will defer filing its avoided cost study until the completion of Case No. 99-376 or the receipt of a *bone fide* request from a competitive local exchange carrier for interconnection.

If there is any question concerning this notification please contact me.

Submitted by:

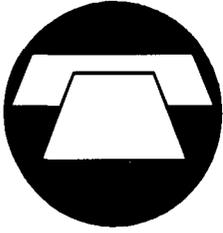
F. Thomas Rowland
Executive V.P./General Manager

872 HWY. 52 BYPASS EAST
P.O. Box 70
LAFAYETTE TN 37083-0070

PHONE: 615-666-2151

1574 OLD GALLATIN ROAD
P.O. Box 86
SCOTTSVILLE KY 42184

PHONE: 502-622-7500



Thacker - Grigsby Telephone Co., Inc.

P. O. BOX 789
HINDMAN, KENTUCKY 41822

RECEIVED
OCT 01 1999
PUBLIC SERVICE
COMMISSION

September 28, 1999

Ms. Helen Helton, Esq.
Executive Director
Kentucky Public Service Commission
730 Schenkel Lane
Frankfort, KY 40602

Re: Administrative Case No. 355 – An Inquiry into Local Competition, Universal Service and the Non-Traffic Sensitive Access Rate and

Case No. 99-376 – Approving Duo County's Avoided Cost Methodology and Study

Dear Ms. Helton:

Pursuant to the Kentucky Public Service Commission's Order in Case No. 99-376, Thacker-Grigsby Tel. Co., Inc. P.O. Box 789, Hindman, KY 41822 will defer filing its avoided cost study until the completion of Case No. 99-376 or the receipt of a *bone fide* request from a competitive local exchange carrier for interconnection.

If there is any question concerning this notification, please contact Robert C. Thacker at (606) 785-9500.

Submitted by

Robert C. Thacker



WEST KENTUCKY
RURAL TELEPHONE COOPERATIVE CORPORATION, INC.

You can have personal telecommunications.

RECEIVED
OCT 01 1999
PUBLIC SERVICE
COMMISSION

September 28, 1999

Ms. Helen Helton, Esquire
Executive Director
Kentucky Public Service Commission
730 Schenkel Lane
Frankfort, KY 40602

RE: Administrative Case No. 355 – An Inquiry into Local Competition, Universal Service, and the Non-Traffic Sensitive Access Rate and

Case No. 99-376 – Approving Duo County's Avoided Cost Methodology and Study

Dear Mr. Helton:

Pursuant to the Kentucky Public Service Commission's Order in Case No. 99-376, West Kentucky Rural Telephone Coop. Corp. Inc., 237 North 8th Street, Mayfield, Kentucky 42066 will defer filing its avoided cost study until the completion of Case No. 99-376 or the receipt of a bone fide request from a competitive local exchange carrier for interconnection.

If there is any question concerning this notification, please contact Gary McClain at 270-674-1000.

Sincerely,

Gary McClain
Marketing/Public Relations Manager

237 NORTH 8TH STREET
P.O. BOX 649
MAYFIELD, KENTUCKY 42066

TEL: (270) 674-1000
FAX: (270) 856-3611
E-MAIL: support@wk.net

RECEIVED
OCT 01 1999
PUBLIC SERVICE
COMMISSION

September 30, 1999

Ms Helen Helton, Esq.
Executive Director
Kentucky Public Service Commission
730 Schenkel Lane
Frankfort, KY 40602

RE: Administrative Case No. 355 - an Inquiry into Local Competition, Universal Service and the Non-Traffic Sensitive Access Rate and

Case No. 99-376 - Approving Duo County's Avoided Cost Methodology and Study

Ms. Helton:

Pursuant to the Kentucky Public Service Commission's Order in Case No. 99-376, Peoples Rural Telephone will defer filing its avoided cost study until the completion of Case No. 99-376 or in receipt of a *bona fide* request from a competitive local exchange carrier for interconnection.

If there are any questions concerning this notification please contact me at 606-287-7101.

Sincerely,



Keith Gabbard, Manager

KG:ek



Southern Region
P.O. Box 22995
Knoxville, TN 37933-0995
725 Pellissippi Parkway, Ste. 230
Knoxville, TN 37932

Telephone: 423-966-4700
FAX: 423-675-3881

Government and Regulatory Affairs

September 29, 1999

Ms. Helen C. Helton
Executive Director
Commonwealth of Kentucky
Public Service Commission
730 Schenkel Lane
Frankfort, KY 40602

RECEIVED
OCT 01 1999
PUBLIC SERVICE
COMMISSION

Dear Ms. Helton:

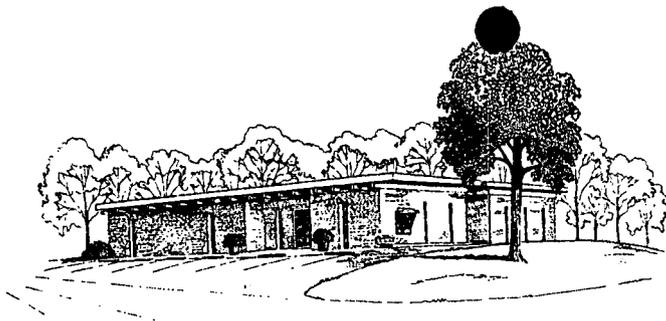
Pursuant to the Commission Order in Administrative Case No. 355 and Case No. 376⁽⁹⁹⁾ dated September 22, 1999, TDS TELECOM on behalf of its Kentucky Operating Companies (Leslie County Telephone, Lewisport Telephone, and Salem Telephone) hereby elects to defer the filing of avoided costs studies. TDS TELECOM reserves the right to file studies prior to any Commission Ordered date should the Company deem it necessary.

Should you have any questions, please do not hesitate to contact me at (423) 671-4754.

Sincerely,


John D. Feehan
Manager - External Relations

Cc: Mr. Herb Liebman - Liebman & Liebman



**BALLARD RURAL TELEPHONE COOPERATIVE
CORPORATION, INC.**

159 West 2nd Street
P.O. Box 209
LaCenter, Kentucky 42056-0209

Telephone (502) 665-5186
FAX# (502) 665-9186

RECEIVED
SEP 30 1999
PUBLIC SERVICE
COMMISSION

Harlon E. Parker
Manager

September 27, 1999

Ms. Helen Helton, Esq.
Executive Director
Kentucky Public Service Commission
730 Schenkel Lane
Frankfort, KY 40602

RE: Administrative Case No. 355 - An Inquiry into Local Competition, Universal Service and the Non-Traffic Sensitive Access Rate and

Case No. 99-376 - Approving Duo County's Avoided Cost Methodology and Study

Dear Ms. Helton:

Pursuant to the Kentucky Public Service Commission's Order in Case No. 99-376, Ballard Rural Telephone Cooperative Corporation, Inc. in La Center, Kentucky will defer filing its avoided cost study until the completion of Case No. 99-376 or the receipt of a *bone fide* request from a competitive local exchange carrier for interconnection.

If there is any question concerning this notification please contact Randy Grogan at 270/665-5186.

Sincerely,

Harlon E. Parker
General Manager



7840 Morgan County Hwy.
P.O. Box 119
Sunbright, TN 37872

EMAIL:
HIGHLAND@HIGHLAND.NET
voice 423/628 2121
423/663 3939
606/376 5311

fax 423/628 2409

September 27, 1999

RECEIVED

SEP 30 1999

PUBLIC SERVICE
COMMISSION

Ms. Helen Helton, Esq.
Executive Director
Kentucky Public Service Commission
730 Schenkel Lane
Frankfort, KY 40602

F. L. Terry
MANAGER

RE: **Administrative Case No. 355- An Inquiry into Local
Competition, Universal Service and the Non-Traffic
Sensitive Access Rate and**

Ernest A. Petroff
ATTORNEY

**Case No. ~~99-376~~ Approving Duo County's Avoided Cost
Methodology and Study**

DIRECTORS

John Tate
PRESIDENT

JoAn Haynes
VICE PRESIDENT

Jerry Williams
SECRETARY-TREASURER

Mickey Bingham

Jerry D. Burchfield

Jan Byrd

D.H. Campbell

Loma Denney

Shelva Jo Jones

Joe Alvin Sexton

James E. Terry

Dear Ms. Helton:

Pursuant to the Kentucky Public Service Commission's Order in Case No. 99-376, Highland Telephone Cooperative, Inc, 7840 Morgan County Hwy. , Sunbright, TN 37872, will defer filing its avoided cost study until the completion of Case No. 99-376 or the receipt of a bone fide request from a competitive local exchange carrier for interconnection.

If there is any question concerning this notification please contact, James H. Hamby, Office Manager at (423)-628-2121.

Submitted by,

HIGHLAND TELEPHONE COOPERATIVE, INC.

F. L. Terry
Manager

FT/MD

HIGHLAND TELEPHONE COOPERATIVE

RECEIVED

SEP 29 1999

PUBLIC SERVICE
COMMISSION

BRANDENBURG TELEPHONE COMPANY

200 Telco Drive
Brandenburg, KY 40108
502-422-2121

September 28, 1999

Ms. Helen Helton, Esq.
Executive Director
Kentucky Public Service Commission
730 Schenkel Lane
Frankfort, KY 40602

Re: **Administrative Case No. 355 – An inquiry into Local Competition,
Universal Service and the Non-Traffic Sensitive Access Rate and**

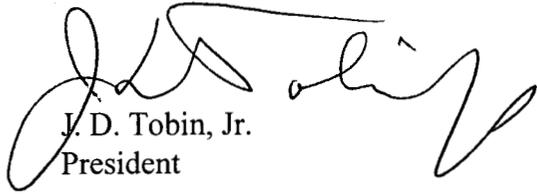
**Case No. 99-376 – Approving Duo County's Avoided Cost Methodology
and Study**

Dear Ms. Helton:

Pursuant to the Kentucky Public Service Commission's Order in Case No. 99-376, Brandenburg Telephone Company, 200 Telco Dr., Brandenburg, KY 40108 will defer filing its avoided cost study until the completion of Case No. 99-376 or the receipt of a *bone fide* request from a competitive local exchange carrier for interconnection.

If there is any question concerning this notification, please contact me at 270-422-2121.

Sincerely,


J. D. Tobin, Jr.
President

JDTjr:jh



P. O. BOX 240 • 1621 KY HWY 40 W • STAFFORDSVILLE, KY 41256

RECEIVED

SEP 28 1999

September 27, 1999

PUBLIC SERVICE
COMMISSION

Ms. Helen Helton, Esq.
Executive Director
Kentucky Public Service Commission
730 Schenkel Lane
Frankfort, KY 40602

RE: Administrative Case No. 355 - An Inquiry into
Local Competition, Universal Service and the
Non-Traffic Sensitive Access Rate and

Case No. 99-376 - Approving Duo County's
Avoided Cost Methodology and Study

Dear Ms. Helton:

Pursuant to the Kentucky Public Service Commission's
Order in Case No. 99-376, Foothills Rural Telephone
Cooperative Corporation, Inc., P. O. Box 240,
Staffordsville, KY 41256, will defer filing its avoided
cost study until the completion of Case No. 99-376 or the
receipt of a *bone fide* request from a competitive local
exchange carrier for interconnection.

If there is any question concerning this notification,
please contact Thomas E. Preston, General Manager, at
606-297-3501.

Submitted by

Thomas E. Preston
General Manager

TEP/cjw

South Central RTC



Total
Communications

South Central Rural Telephone
Cooperative Corporation, Inc.

RECEIVED
September 7, 1999
Sept 8 1999
PUBLIC SERVICE
COMMISSION

Ms Helen Helton, Esq.
Executive Director
Kentucky Public Service Commission
730 Schenkel Lane
Frankfort, KY 40602

Re: **Administrative Case No. 355 - An Inquiry into Local Competition, Universal Service and the Non-Traffic Sensitive Access Rate and**

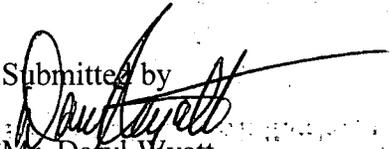
Case No. 99-376 - Approving Duo County's Avoided Cost Methodology and Study

Dear Ms. Helton:

Pursuant to the Kentucky Public Service Commission's Order in Case No. 99-376 South Central Rural Telephone Cooperative Corporation, Inc. will defer filing its avoided cost study until the completion of Case No. 99-376 or the receipt of a *bone fide* request from a competitive local exchange carrier for interconnection.

If there is any question concerning this notification please contact Mr. Robert Dale at 270-678-8218.

Submitted by


Mr. Daryl Wyatt

P.O. Box 159

Glasgow, KY 42142



PAUL R. GEARHEART
PRESIDENT

PAUL D. GEARHEART
VICE PRESIDENT

September 27, 1999

Helen C. Helton, Executive Director
KY Public Service Commission
730 Schenkel Lane
P O Box 615
Frankfort KY 40602

RECEIVED
SEP 28 1999
PUBLIC SERVICE
COMMISSION

RE: Administrative Case No. 355
An Inquiry into Local Competition, Universal
Service and the Non-Traffic Access Rate and

Case No. 99-376 – Approving Duo County's Avoided
Cost Methodology and Study

Dear Ms. Helton:

Pursuant to the Kentucky Public Service Commission's Order in Case No. 99-376, Coalfields Telephone Company, 5 Laynesville Road, P. O. Box 160, Harold, KY 41635 will defer filing its avoided cost study until the completion of Case No. 99-376 or the receipt of a bone fide request from a competitive local exchange carrier for interconnection.

If you have any questions concerning this notification, please contact our Director of Operations, James Campbell at **606 478 9401 ext 207** or email him at icamp@eastky.net.

Sincerely,

Paul R. Gearheart
President/Manager

PRG/ndt

C:\FILES\COALFIELDS\PSC-15(HelenHelton (Adm Case 355 LocalCompete)JC.doc

99-376



Telephone: (606)743-3121
Facsimile: (606)743-3635
Post Office Box 399
West Liberty, Ky. 41472-0399

September 24, 1999

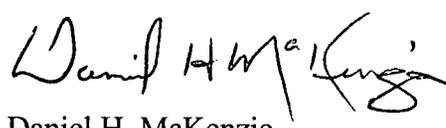
Commonwealth of Kentucky
Public Service Commission
730 Schenkel Lane
Post Office Box 615
Frankfort, KY 40602

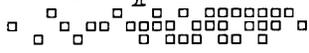
RECEIVED
SEP 27 1999
PUBLIC SERVICE
COMMISSION

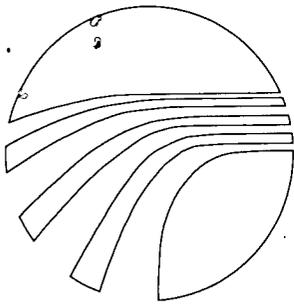
RE: ~~Administrative Case No. 1350~~ ✓
Case No. 99-376

In reference to the above case, Mountain Telephone is declaring its intent to defer filing avoided cost studies until further Order of the Commission.

Sincerely,


Daniel H. McKenzie

Your Rural
Cooperative




LOGAN TELEPHONE COOPERATIVE

The World At Your Fingertips

99-376

RECEIVED
SEP 27 1999
PUBLIC SERVICE
COMMISSION

September 24, 1999

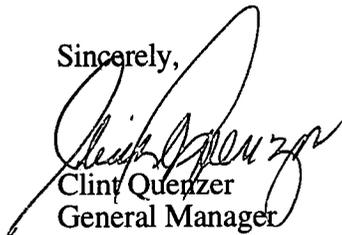
Helen C. Helton, Executive Director
Public Service Commission
730 Schenkel Ln
P O Box 615
Frankfort, KY 40602

Re: ~~Administrative Case No. 355~~
Administrative Case No. 99-376

Dear Ms. Helton,

Enclosed you will find the original and four copies of Logan Telephone Cooperative's response to the Commission Order dated September 22, 1999 in regards to Administrative Case No. 355 and 99-376. Should you have any questions, please feel free to contact myself or Stacey Biggs, Public Affairs & Marketing Coordinator at 270-542-4121.

Sincerely,



Clint Quenzer
General Manager

Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
SEP 27 1999
PUBLIC SERVICE
COMMISSION

In the Matter of:

AN INQUIRY INTO LOCAL COMPETITION,)
UNIVERSAL SERVICE AND THE NON-TRAFFIC) ADMINISTRATIVE
SENSITIVE ACCESS RATE) CASE NO.355
)

In the Matter of:

APPROVING DUO COUNTY'S AVOIDED COST)
METHODOLOGY AND STUDY) ADMINISTRATIVE
) CASE NO.99-376
)

**LOGAN TELEPHONE COOPERATIVE RESPONSE
TO COMMISSION'S SEPTEMBER 22, 1999 ORDER**

As per the Commission's order dated September 22, 1999, Logan Telephone, having been sufficiently advised, requests to defer filing of its avoided cost studies until further Order of the Commission.



LOGAN TELEPHONE COOPERATIVE

The World At Your Fingertips

RECEIVED
SEP 27 1999
PUBLIC SERVICE
COMMISSION

September 24, 1999

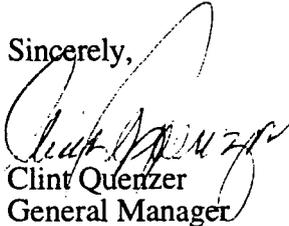
Helen C. Helton, Executive Director
Public Service Commission
730 Schenkel Ln
P O Box 615
Frankfort, KY 40602

Re: Administrative Case No. 355
Administrative Case No. 99-376

Dear Ms. Helton,

Enclosed you will find the original and four copies of Logan Telephone Cooperative's response to the Commission Order dated September 22, 1999 in regards to Administrative Case No. 355 and 99-376. Should you have any questions, please feel free to contact myself or Stacey Biggs, Public Affairs & Marketing Coordinator at 270-542-4121.

Sincerely,


Clint Quenzer
General Manager

Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
SEP 27 1999
PUBLIC SERVICE
COMMISSION

In the Matter of:

AN INQUIRY INTO LOCAL COMPETITION,)
UNIVERSAL SERVICE AND THE NON-TRAFFIC) ADMINISTRATIVE
SENSITIVE ACCESS RATE) CASE NO.355
)

In the Matter of:

APPROVING DUO COUNTY'S AVOIDED COST)
METHODOLOGY AND STUDY) ADMINISTRATIVE
) CASE NO.99-376
)

**LOGAN TELEPHONE COOPERATIVE RESPONSE
TO COMMISSION'S SEPTEMBER 22, 1999 ORDER**

As per the Commission's order dated September 22, 1999, Logan Telephone, having been sufficiently advised, requests to defer filing of its avoided cost studies until further Order of the Commission.

BRANDENBURG TELEPHONE COMPANY
200 Telco Drive
Brandenburg, KY 40108
502-422-2121

32/8
RECEIVED
SEP 27 1999
PUBLIC SERVICE
COMMISSION

September 24, 1999

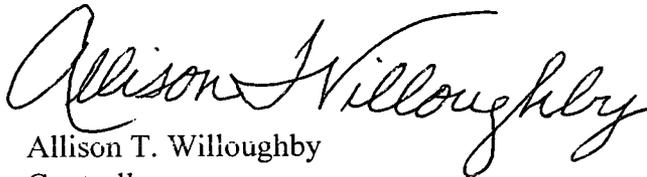
Ms. Helen Helton
Kentucky Public Service Commission
730 Schenkel Lane
P. O. Box 615
Frankfort, KY 40602

RE: Avoidable Cost Study Case No. 99-376

Dear Ms. Helton:

Brandenburg Telephone Company will defer filing an avoided cost study until further Order of the Commission.

Sincerely,


Allison T. Willoughby
Controller

ATW:jh



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

September 22, 1999

William W. Magruder
Executive Vice President
Duo County Telephone Cooperative
Corporation, Inc.
1021 West Cumberland Avenue
P. O. Box 80
Jamestown, KY. 42629

Honorable Howard Kent Cooper
Attorney at Law
Howard Kent Cooper
Monument Square
P. O. Box 410
Jamestown, KY. 42629 0410

RE: Case No. 99-376

We enclose one attested copy of the Commission's Order in
the above case.

Sincerely,

Stephanie Bell
Secretary of the Commission

SB/sa
Enclosure

cc: LEC's with the exception of CBT, GTE and BellSouth

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INQUIRY INTO LOCAL)
COMPETITION, UNIVERSAL SERVICE) ADMINISTRATIVE
AND THE NON-TRAFFIC SENSITIVE) CASE NO. 355
ACCESS RATE)

In the Matter of:

APPROVING DUO COUNTY'S)
AVOIDED COST METHODOLOGY AND)
STUDY) CASE NO. 99-376
)

O R D E R

In Administrative Case No. 355, the Commission ordered all companies exempted from obligations imposed by Section 251(c) of the Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56, 47 U.S.C. 151, et seq. ("the Act") to file avoided cost studies within three years of the date of that Order.¹ Section 251(f)(1) of the Act allows such exemption to certain rural telephone companies until the company has received a bona fide request for interconnection and the state commission determines that such request is not unduly economically burdensome, is technically feasible and is consistent with Section 254 (other than Sections (b)(7) and (c)(1)(D)) of the Act.

¹ Administrative Case No. 355, Order dated September 26, 1996, at 14.

On September 7, 1999, Duo County Rural Telephone Cooperative Corporation, Inc. ("Duo County") filed its avoided cost study for Commission review. In its application, Duo County states that it has not received and does not anticipate receiving a bona fide request for interconnection in the near future:

Delays in implementing the Act, as well as the rural nature of the service area of Duo County and the other companies exempted under Section 251(f)(1) of the Act, make it unlikely that competitive local exchange carriers will seek to provide services in the rural areas served by these companies in the near future. Also, it is possible that the United States Court of Appeals for the Eighth Circuit will find unreasonable the FCC methodology for determining wholesale discount rates, upon which the Commission relies heavily in its calculations. However, since Duo County has filed its study pursuant to a Commission Order, the Commission will review the study using the methodology employed by the Commission in reaching its decisions in Case No. 96-482,² Case No. 97-402,³ and Case No. 98-041.⁴ Companies that have completed an avoided cost study may file it with the Commission. Those companies that have not completed their study may defer filing until further Order of the Commission. Those companies which defer filing must notify the Commission of their intent to do so within seven days of the receipt of this Order.

² Case No. 96-482, The Interconnection Agreement Negotiations Between AT&T Communications of the South Central States, Inc. and BellSouth Telecommunications, Inc. Pursuant to 47 U.S.C.

³ Case No. 97-402, Cincinnati Bell Telephone Company's Avoided Cost Study.

⁴ Case No. 98-041, GTE South Incorporated Avoided Cost Study.

The Commission, having considered the record, and being otherwise sufficiently advised, HEREBY ORDERS that all companies exempted under Section 251(f)(1) of the Act may defer filing avoided cost studies until further Order of the Commission, and shall notify the Commission within seven days of receipt of this Order of their intent to defer filing.

Done at Frankfort, Kentucky, this 22nd day of September, 1999.

By the Commission

ATTEST:


Executive Director



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

September 14, 1999

William W. Magruder
Executive Vice President
Duo County Telephone Cooperative
Corporation, Inc.
1021 West Cumberland Avenue
P. O. Box 80
Jamestown, KY. 42629

Honorable Howard Kent Cooper
Attorney at Law
Howard Kent Cooper
Monument Square
P. O. Box 410
Jamestown, KY. 42629 0410

RE: Case No. 99-376
DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
(Investigation - Rates) AVOIDED COST STUDY

This letter is to acknowledge receipt of initial application in the above case. The application was date-stamped received September 7, 1999 and has been assigned Case No. 99-376. In all future correspondence or filings in connection with this case, please reference the above case number.

If you need further assistance, please contact my staff at 502/564-3940.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Bell".

Stephanie Bell
Secretary of the Commission

SB/jc

Howard Kent Cooper

Tel.: (502) 343-2121
Fax: (502) 343-2120

Attorney at Law

Monument Square, P.O. Box 410
Jamestown, KY 42629-0410

September 2, 1999

Ms. Helen Helton, Esq.
Executive Director
Public Service Commission of Kentucky
730 Schenkel Lane
Frankfort, Kentucky 40602

RECEIVED
SEP 07 1999
PUBLIC SERVICE
COMMISSION

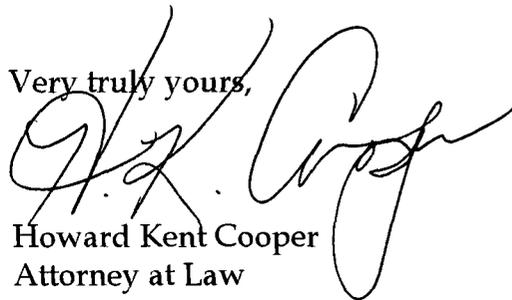
RE: **In the Matter of Approving Duo County's
Avoided Cost Methodology and Study** CASE 99-376

Dear Ms. Helton

Enclosed for filing please find an original and ten (10) copies of Duo County Rural Telephone Cooperative Corporation, Inc.'s Request for approval of its avoided cost methodology and study. The filing includes an explanation of the methodology utilized by Duo County RTCC in determining the avoided cost, a copy of the actual avoided cost study with supporting data and the wholesale discount rate.

If you have any questions concerning this filing, please feel free to contact Mr. William Magruder at (270) 343-3131. Thank you in advance for your assistance in this matter.

Very truly yours,



Howard Kent Cooper
Attorney at Law

HKC:pke
Enclosures

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
SEP 07 1999
PUBLIC SERVICE
COMMISSION

In the Matter of:

In the Matter of Approving
Duo County's Avoided Cost
Methodology and Study))

CASE 99-376

PETITION FOR APPROVAL OF DUO COUNTY RTCC's PROPOSED
WHOLESALE DISCOUNT RATE

Duo County Rural Telephone Cooperative Corporation, Inc. ("Duo County") submits this petition with supporting documents and ten (10) copies pursuant to the Kentucky Public Service Commission's ("Commission") Final Order in Administrative Case No. 355, An Inquiry Into Local Competition, and the Non-traffic Sensitive Access Rate; and the Federal Communications Commission's First Report and Order, FCC-96-325. This filing meets the requirement of the Public Service Commission that "companies exempted pursuant to Section 252(f)(1) should file avoided cost studies within three (3) years from the date of the Order, unless otherwise directed by the Commission".¹

I

Duo County has prepared an avoided cost study in accordance with the Commission's Order in Administrative Case No. 355 and the FCC's rules in Docket No 96-325. The avoided cost study prepared by Duo County meets the objectives included in the Telecommunication Act of 1996. The proposed avoided cost study provides the opportunity for competitive entry into the local exchange and assists in preserving universal service.

Further, the proposed avoided cost model conforms to the guidelines prescribed in Docket No. 96-325. It is based on the Duo County's actual retail costs and comports with the rate making practices in Kentucky.

II

Duo County RTCC has not received and does not anticipate receiving in the near future a *bona fide* request for resale of its local retail services. By approving Duo County's avoided cost of service study and methodology, Duo County will be in a position to present to any potential customer a Commission approved avoided cost methodology and study. This will

¹Order (Administrative Case No. 355, September 26, 1996, page 14.

facilitate negotiations if and when a *bone fide* request is received from a Competitive Local Exchange Carrier.

III

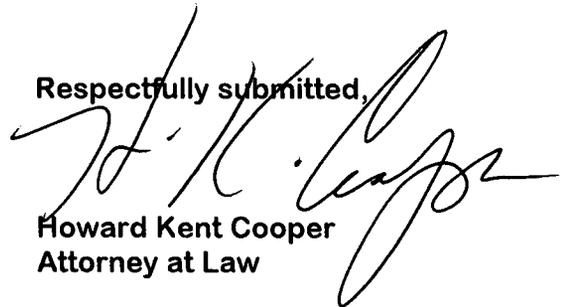
Attachment I contains the proposed cost of service study and supporting data. The avoided cost study was based on a December 31, 1998 test year.

Attachment II contains an explanation of the avoided cost methodology employed by Duo County.

IV

Therefore, Duo County requests approval of its proposed cost of service study and methodology as filed.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "H. K. Cooper", is written over the typed name and title.

Howard Kent Cooper
Attorney at Law

**Duo County Telephone
Avoidable Cost Discount**

For Year Ended 12/31/1998

Date: 9/1/99

Attachment I
Page 1

	<u>Source</u>	<u>Amount</u>
1. Direct Avoided Costs	Page 2, Ln 32	\$261,363
2. Indirect Avoidable Costs	Page 3, Ln 19	\$43,805
3. Total Avoidable Costs	Ln 1 + Ln 2	<u>\$305,168</u>
4. Total Costs	Page 5, Ln 31	\$8,176,476
5. Avoided Cost Percentage	Ln 3 / Ln 4	3.73%
6. Cost Onsets	Page 4, Ln 13	\$28,663
7. Total Costs	Page 5, Ln 31	\$8,176,476
8. Onset Cost Percentage	Ln 6 / Ln 7	0.35%
9. Net Avoided Cost Percentage	Ln 5 - Ln 8	3.38%

Duo County Telephone**Direct Avoided Costs**

For Year Ended 12/31/1998

Date: 9/1/99

Attachment I

Page 2

		<u>Per Study</u> <u>12/31/98</u>	<u>Percent</u> <u>Avoided</u>		<u>Avoided</u> <u>Costs</u>
1 Product Management	6611	\$0	90%		\$0
2 Sales	6612	\$0	90%		\$0
3 Product Advertising	6613	\$14,455	90%		\$13,010
4 Operator - Information	6621	\$0	0%		\$0
5 Operator - ONI	6621	\$0	0%		\$0
6 Operator - Other	6621	\$0	0%		\$0
7 Outside Operator - Information	6621	\$0	0%		\$0
8 Outside Operator - ONI	6621	\$0	0%		\$0
9 Outside Operator - Other	6621	\$0	0%		\$0
10 White Page Directory	6622	\$53,881	0%		\$0
11 Foreign Directories	6622	\$0	0%		\$0
12 Local Order Processing	6623	\$103,629	75%	1	\$77,722
13 PIC Change Charges	6623	\$10,159	0%		\$0
14 Payment & Collection	6623	\$58,499	100%		\$58,499
15 Local Bill Inquiry	6623	\$18,449	100%		\$18,449
16 Toll Bill Inquiry	6623	\$3,182	100%		\$3,182
17 Special Service Bill Inquiry	6623	\$0	100%		\$0
18 SLC Bill Inquiry	6623	\$5,722	100%		\$5,722
19 IXC Switched Order Processing	6623	\$0	0%		\$0
20 IXC Special Order Processing	6623	\$0	0%		\$0
21 IXC B&C Order Processing	6623	\$0	0%		\$0
22 IXC Payment & Collection	6623	\$0	0%		\$0
23 IXC Switched Bill Inquiry	6623	\$0	0%		\$0
24 IXC Special Bill Inquiry	6623	\$0	0%		\$0
25 IXC B&C Bill Inquiry	6623	\$0	0%		\$0
26 Coin Collection & Counting	6623	\$79,460	0%		\$0
27 Rating	6623	\$10,022	100%		\$10,022
28 Message Processing	6623	\$15,034	0%		\$0
29 Other Billing & Collection	6623	\$74,757	100%		\$74,757
30 CABs Billing Expense	6623	\$74,545	0%		\$0
31 Cost of Avoided Investment					\$0
32 Total Direct Avoided Costs		<u>\$521,794</u>			<u>\$261,363</u>

1. Assumes that Service Orders from resellers will come in bulk format or through direct electronic interface - therefore, LEC will continue to process orders, but at a reduced quantity / time. Assumed the reduction to be 75%.

**Duo County Telephone
Indirect Avoided Costs**

For Year Ended 12/31/1998

Date: 9/1/99

	<u>Amount</u> <u>12/31/98</u>
1 Direct Avoided Costs	\$261,363
2 Total Expenses	\$6,814,575
3 Percent Avoided of Total	3.8%

<u>Overheads</u>		<u>Per Study</u> <u>12/31/98</u>	<u>Percent</u> <u>Avoidable</u>	<u>Avoided</u> <u>Costs</u>
4 Executive	6711	\$261,452	3.8%	\$9,935
5 Planning	6712	\$0	3.8%	\$0
6 Accounting & Finance	6721	\$162,019	3.8%	\$6,157
7 External Affairs	6722	\$174,650	0.0%	\$0
8 Human Resources	6723	\$16,836	3.8%	\$640
9 Information Management	6724	\$162,458	3.8%	\$6,173
10 Legal	6725	\$18,448	0.0%	\$0
11 Procurement	6726	\$12,836	0.0%	\$0
12 Research & Development	6727	\$0	0.0%	\$0
13 Other General & Admin	6728	\$235,943	3.8%	\$8,966
14 Repair of buildings	6121	\$115,570	3.8%	\$4,392
15 Repair of Furniture	6122	\$2,543	3.8%	\$97
16 Repair of Office Equipment	6123	\$28,510	3.8%	\$1,083
17 Repair of Computers	6124	\$24,706	3.8%	\$939
18 Uncollectibles	5301	\$5,423	100.0%	\$5,423
19 Indirect Avoidable Costs		<u>\$1,221,394</u>		<u>\$43,805</u>

Duo County Telephone

Cost Onsets

For Year Ended 12/31/1998

Date: 9/1/99

Attachment I

Page 4

<u>Recurring Onsets</u>	<u>Amount</u>
1 Billing Wholesalers	\$382
2 Wholesaler Bill Inquiry	\$1,384
3 Customer Inquiry Referrals	\$2,735
4 Wholesaler Payment & Collection	\$25
5 Audit of Cross-Class Usage	\$2,500
6 Onset Indirect	\$267
7 Total Recurring Onsets	<u>\$7,293</u>
<u>Non-Recurring Onsets</u>	
8 Cost of Study	\$3,500
9 Severance Pay	\$14,240
10 Software Billing Development	\$25,000
11 Cost of Tariff	\$0
12 Total Non-recurring Onsets	<u>\$42,740</u>
13 Amortization Over 2 Years	\$21,370
14 Total Onsets	<u><u>\$28,663</u></u>

**Duo County Telephone
Expense Summary by Account**

For Year Ended 12/31/1998

Date: 9/1/99

Attachment I

Page 5

		<u>Per Ledger 12/31/98</u>	<u>Part 64 Adjustments</u>	<u>Other Adjustments</u>	<u>Per Study 12/31/98</u>
1 Network Support Expense	6110	\$4,746	\$0	\$0	\$4,746
2 Repair of Buildings	6121	\$115,570	\$0	\$0	\$115,570
3 Repair of Furniture	6122	\$2,543	\$0	\$0	\$2,543
4 Repair of Office Equipment	6123	\$28,510	\$0	\$0	\$28,510
5 Repair of Computers	6124	\$24,706	\$0	\$0	\$24,706
6 Central Office Switching	6210	\$337,786	\$0	\$0	\$337,786
7 Operator Expense	6220	\$2,073	\$0	\$0	\$2,073
8 Central Office Transmission	6230	\$10,958	\$0	\$0	\$10,958
9 Info Orig & Term	6310	\$253,431	(\$253,431)	\$0	\$0
10 Cable & Wire	6410	\$828,677	\$0	\$0	\$828,677
11 Total Plant Specific		\$1,609,000	(\$253,431)	\$0	\$1,355,569
12 Other Prop & Equip	6510	\$0	\$0	\$0	\$0
13 Network Operations	6530	\$644,145	\$0	\$6,993	\$651,138
14 Access Expense	6540	\$57,538	(\$57,538)	\$0	\$0
15 Depreciation	6561	\$3,145,008	(\$164,315)	\$0	\$2,980,693
16 Amortization	6563	\$0	\$0	\$0	\$0
17 Total Plant Non-Specific		\$3,846,691	(\$221,853)	\$6,993	\$3,631,831
18 Product Management	6611	\$0	\$0	\$0	\$0
19 Sales	6612	\$0	\$0	\$0	\$0
20 Product Advertising	6613	\$14,455	\$0	\$0	\$14,455
21 Operator - Information	6621	\$0	\$0	\$0	\$0
22 Operator - ONI	6621	\$0	\$0	\$0	\$0
23 Operator - Other	6621	\$0	\$0	\$0	\$0
24 Outside Operator - Information	6621	\$0	\$0	\$0	\$0
25 Outside Operator - ONI	6621	\$0	\$0	\$0	\$0
26 Outside Operator - Other	6621	\$0	\$0	\$0	\$0
27 White / Yellow Page Directory	6622	\$53,881	\$0	\$0	\$53,881
28 Foreign Directories	6622	\$0	\$0	\$0	\$0
29 Order Processing	6623	\$103,629			\$103,629
30 PIC Change Charges	6623	\$10,159			\$10,159
31 Payment & Collection	6623	\$58,499			\$58,499
32 Local Bill Inquiry	6623	\$18,449			\$18,449
33 Toll Bill Inquiry	6623	\$3,182			\$3,182
34 Special Service Bill Inquiry	6623	\$0			\$0
35 SLC Bill Inquiry	6623	\$5,722			\$5,722
36 IXC Switched Order Processing	6623	\$0			\$0
37 IXC Special Order Processing	6623	\$0			\$0
38 IXC B&C Order Processing	6623	\$0			\$0
39 IXC Payment & Collection	6623	\$0			\$0
40 IXC Switched Bill Inquiry	6623	\$0			\$0
41 IXC Special Bill Inquiry	6623	\$0			\$0
42 IXC B&C Bill Inquiry	6623	\$0			\$0
43 Coin Collection & Counting	6623	\$79,460			\$79,460
44 Other Commercial	6623	\$181,121	(\$48,882)	(\$132,239)	\$0
45 Rating	6623	\$10,022			\$10,022

**Duo County Telephone
Expense Summary by Account**

For Year Ended 12/31/1998

Date: 9/1/99

		<u>Per Ledger</u> <u>12/31/98</u>	<u>Part 64</u> <u>Adjustments</u>	<u>Other</u> <u>Adjustments</u>	<u>Per Study</u> <u>12/31/98</u>
46 Message Processing	6623	\$15,034			\$15,034
47 Other Billing & Collection	6623	\$74,757			\$74,757
48 CABs Billing Expense	6623	\$74,545			\$74,545
49 Other Revenue Accounting	6623	(\$99,815)	\$0	\$99,815	\$0
50 Total Customer Services		<u>\$603,100</u>	<u>(\$48,882)</u>	<u>(\$32,424)</u>	<u>\$521,794</u>
51 Executive	6711	\$261,452	\$0	\$0	\$261,452
52 Planning	6712	\$0	\$0	\$0	\$0
53 Accounting & Finance	6721	\$162,019	\$0	\$0	\$162,019
54 External Affairs	6722	\$174,650	\$0	\$0	\$174,650
55 Human Resources	6723	\$16,836	\$0	\$0	\$16,836
56 Information Management	6724	\$162,458	\$0	\$0	\$162,458
57 Legal	6725	\$18,448	\$0	\$0	\$18,448
58 Procurement	6726	\$12,836	\$0	\$0	\$12,836
59 Research & Development	6727	\$0	\$0	\$0	\$0
60 Other General & Admin	6728	\$210,514	\$0	\$25,429	\$235,943
61 Total Corporate		<u>\$1,019,213</u>	<u>\$0</u>	<u>\$25,429</u>	<u>\$1,044,642</u>
62 Ad Valorem Taxes	7240	\$242,144	(\$910)	\$0	\$241,234
63 Special Charges	7370	\$14,082	\$0	\$0	\$14,082
64 Uncollectibles	5301	\$5,423	\$0	\$0	\$5,423
65 Total Expenses		<u>\$7,339,653</u>	<u>(\$525,076)</u>	<u>(\$2)</u>	<u>\$6,814,575</u>

**Duo County Telephone
Revenue Summary by Account**

For Year Ended 12/31/1998

Date: 9/1/99

<u>Revenues</u>		<u>Revenues Per Ledger 12/31/98</u>	<u>Part 64 Adjustments</u>	<u>Other Adjustments</u>	<u>Revenues Per Study 12/31/98</u>
1 Local Service	5001	\$2,108,135	\$0	\$0	\$2,108,135
2 Local Calling Plans	5002	\$0	\$0	\$0	\$0
3 Mobile	5004	\$0	\$0	\$0	\$0
4 Public Telephone	5010	\$0	\$0	\$0	\$0
5 Local Private Line	5040	\$21,539	\$0	\$0	\$21,539
6 Customer Premise Equipment	5050	\$0	\$0	\$0	\$0
7 Other Local Revenue	5060	\$527,317	\$0	\$0	\$527,317
8 Other Exchange Settlements	5069	\$0	\$0	\$0	\$0
9 End User	5081	\$520,194	\$0	\$0	\$520,194
10 Switched Access Less USF	5082.1	\$1,966,683	\$0	\$0	\$1,966,683
11 Universal Service Fund		\$0	\$0	\$0	\$0
12 Special Access	5082.2	\$24,351	\$0	\$0	\$24,351
13 State Access	5086.1	\$2,263,327	\$0	\$0	\$2,263,327
14 Long Distance Message	5100	\$0	\$0	\$0	\$0
15 Inwats Revenue	5111	\$0	\$0	\$0	\$0
16 Outwats Revenue	5112	\$0	\$0	\$0	\$0
17 Toll Private Line	5120	\$0	\$0	\$0	\$0
18 Other Long Distance	5160	\$0	\$0	\$0	\$0
19 Directory	5230	\$144,463	\$0	\$0	\$144,463
20 Rent	5240	\$6,687	\$0	\$0	\$6,687
21 Corporate Operations	5250	\$0	\$0	\$0	\$0
22 Special Billing Arrangements	5261	\$0	\$0	\$0	\$0
23 Customer Operations	5262	\$2,701	\$0	\$0	\$2,701
24 Plant Operations	5263	\$0	\$0	\$0	\$0
25 Other Incidental Regulated	5264	\$15,797	\$0	\$0	\$15,797
26 Other Settlements	5269	\$0	\$0	\$0	\$0
27 Billing & Collection	5270	\$575,282	\$0	\$0	\$575,282
28 Nonregulated	5280	\$735,400	(\$735,400)	\$0	\$0
29 Total Revenues		<u>\$8,911,876</u>	<u>(\$735,400)</u>	<u>\$0</u>	<u>\$8,176,476</u>
30 Less Gross Receipts					\$0
31 Total Revenues (see note)					\$8,176,476

Note: Under a regulated earnings environment, total revenues are equated to total costs, including a return/profit component.

Determining a Wholesale Discount for Resale Service

Introduction

Duo County Telephone Cooperative Corporation, Inc. (Duo County) presents its methodology for determining a wholesale discount for resale service. This paper describes the method of determining a wholesale discount for resale service for rural local exchange carriers. This methodology has been developed by John Staurulakis, Inc. (JSI) and has been used in numerous negotiations, mediations, and state regulatory filings. The methodology achieves the goals of the Telecommunications Act of 1996 (Act) and conforms to the guidelines proscribed by the Federal Communications Commission's (FCC) First Report and Order FCC-96-325 (FCC Order).

The Act provides general guidance for determining avoidable costs. The FCC examines the issue in over 50 pages and emphasizes that its "criteria are intended to leave the state commissions broad latitude in selecting costing methodologies that comport with their own ratemaking practices for retail services. ... [W]e do not adopt as presumptively correct any avoided cost model." (FCC Order ¶909) While price-cap LECs have submitted and had approved avoidable cost models in most states, the submission of avoidable cost studies by rate-of-return LECs has only just started in a handful of states. The delay for rate-of-return LECs is due in large part because these LECs are subject to wholesale discount of retail services only after they receive a

bona fide request, and the state commission satisfies its statutory obligations as identified in subparts of 47 U.S.C. §251(f).

On September 26, 1996, the Public Service Commission of the Commonwealth of Kentucky issued an order in Administrative Case No. 355. This order rejected the Bell South cost study and adopted a discount rate in the FCC's default proxy range. The Commission has required that "companies exempted pursuant to Section 251(f)(1) should file avoided cost studies within three (3) years from the date of the Order, unless otherwise directed by the Commission." (Order, *Administrative Case No. 355*, p.14) Since Duo County is the first rate-of-return LEC to submit an avoidable cost study to the Commission, it takes this opportunity to provide a description of the methodology it used to determine its wholesale discount.

Wholesale discount methods can differ between LECs. In its review of the comments and models on record, the FCC states that "the record before us demonstrates that avoided cost studies can produce widely varying results, depending in large part upon how the proponent of the study interprets the language of 47 U.S.C. §252(d)3." (FCC Order, ¶909) The FCC and the Kentucky Commission have both recognized that wholesale discounts should be established based upon how retail rates are set. (FCC Order ¶909; Order, *Administrative Case No. 355*, page 13) Therefore, there is no *a priori* reasoning that requires a rate-based rate-of-return LEC to use the same methodology that price-cap LECs have used. Of course, the methodologies must concur

with the rules proscribed in the FCC Order and the general rules established by the Kentucky Public Service Commission in its Order in Administrative Case No.355.

Duo County presents a model that develops an avoidable cost component and determines a wholesale discount based upon the percentage of avoidable cost to total operating cost. Total operating cost is easily arrived at and very close to total retail service operating cost when wholesale services are a small component of business. Furthermore, a total operating cost method closely mirrors the current ratemaking process for rate-of-return LECs.

Determining Avoidable Cost –The Numerator

The first element of a wholesale discount that we will investigate is the avoidable cost from retail operations—this amount serves as the numerator of a wholesale discount percentage. The FCC suggests a more theoretical process than that which is stated in the Act. Both the Regional Bell Operating Companies (RBOCs) and the new reselling entrants have fueled the ensuing debate between “avoidable” and “avoided” costs. In the matter of developing its avoidable costs, Duo County has recognized that it will still retain retail operations even while it is providing wholesale services to competitors. Consequently, Duo County calculates an avoidable cost with modifications to realize the dual nature of its operations in a competitive environment.

The FCC has identified certain costs that are presumed to be avoidable; however, incumbent LECs (ILECs) can rebut this presumption before State commissions. Duo

County rebuts the FCC presumption with regards to some of accounts identified by the FCC.

DIRECTLY AVOIDED COST

The determination of avoidable expenses has been developed in the following manner. First, we identify the Part 32 Accounts that the FCC presumes to be directly avoided. These are identified in Table 1.

Table 1
Directly Avoided Accounts
Part 32 Accounting Detail and FCC Percentages

Account	Description	Percentage Avoided
6611	Product Management	90%
6612	Sales	90%
6613	Product Advertising	90%
6621	Call Completion	100%
6622	Number Service	100%
6623	Customer Services	90%

When we examine these accounts in detail, we discover that they include numerous expenses that are not avoidable for the rural ILEC. In order to rebut the presumption of avoidable expenses, we provide the following account-specific evidence for those accounts which we can demonstrate non-avoidance of expense at a level less than the FCC percentage. Recall that the percentage listed in Table 1 represents the FCC's best estimate of how much of the activity in these accounts would remain if the ILEC were a complete wholesale provider. When available, Duo County will use base the percentage avoidable for these accounts on empirical investigation, rather than conjecture.

Account 6622: Number Service

The costs associated with this account are treated as non-avoidable since the Commission has determined that ILECs will still be required to provide white page listings for all resold customers. (Order, *Administrative Case No. 355*, page 9)

Account 6623: Customer Services

The costs associated with this account are partially avoidable. Based upon actual independent telephone company data provided by JSI, Duo County assumes that the percentage avoided for Local Service Order processing activities contained in Account 6623 "Customer Services" is 75%. Examination of the local service order process reveals twelve work functions, four of which are avoidable: customer contact, credit check, directory information, and service order preparation. The remaining eight functions are not avoidable: complete service order, scheduling, assignment, central office hook-up, premise visit, termination, restoration of service, and moves and changes. These representative time studies conducted by independent telephone companies show that the FCC percentage avoidable for Customer Services is too high.

In addition to Local Order Processing, there are several other functions in Account 6623 that are identified as avoidable or non-avoidable. Those that are treated as non-avoidable are identified as:

PIC change charge: We treat costs associated with this function as non-avoidable because it relates to the provision of exchange access services to an interexchange carrier, which is not considered a retail service.

Interexchange carrier order processing: Costs associated with this function are non-avoidable because it relates to the provision of exchange access services to an interexchange carrier, which is not considered a retail service.

Coin collecting & counting: We treat costs associated with this function as non-avoidable because retail coin service will not be resold consistent with the FCC's Payphone Order.

Message processing: The cost associated with this function is non-avoidable since it covers the processing of toll tapes and other toll-related activities that will continue to be required for retail services.

CABS: We have treated the costs associated with this function, which involves all of the billing operations associated with the processing of carrier billing data, as non-avoidable. Resale will have no impact on the Carrier Access Billing System.

Summary of Rebuttals

Based upon these rebuttals, the percentages used by Duo County's wholesale discount is based upon the following detailed account information.

Table 2
 Directly Avoided Accounts
Part 32 Accounting Detail and JSI Percentages

Account	Description	Percentage Avoided
6611	Product Management	90%
6612	Sales	90%
6613	Product Advertising	90%
6621	Operator – Information	-na-
	Operator – ONI	-na-
	Operator – Other	-na-
6622	White Page Directory	0%
	Foreign Directories	0%
6623	Local Order Processing	75%
	PIC Change Charges	0%
	Payment & Collection	100%
	Local Bill Inquiry	100%
	Toll Bill Inquiry	100%
	Special Service Bill Inquiry	100%
	SLC Bill Inquiry	100%
	IXC Switched Order Processing	0%
	IXC Special Order Processing	0%
	IXC B&C Order Processing	0%
	IXC Payment & Collection	0%
	IXC Switched Bill Inquiry	0%
	IXC Special Bill Inquiry	0%
	IXC B&C Bill Inquiry	0%
	Coin Collection & Counting	0%
	Rating	100%
	Message Processing	0%
	Other Billing & Collection	100%
	CABs Billing Expense	0%

-na- not applicable.

INDIRECTLY AVOIDABLE COST

The presumably indirect avoidable costs that will be used in the avoidable cost studies are determined by examining the Part 32 accounts in Table 3.

Table 3
 FCC Indirectly Avoidable Accounts
Part 32 Accounting Detail

Account	Description
6121	Land and Buildings
6122	Furniture
6123	Office Equipment
6124	General Purpose Computer
6711	Executive
6712	Planning
6721	Treasury / Accounting
6722	External Relations
6723	Human Resources
6724	Information Management
6725	Legal
6726	Procurement
6727	Research & Development
6728	Other G&A
5301	Un-collectible Revenue

We use the FCC formula to develop an indirectly avoidable expense factor for avoidable expenses in these indirectly avoidable accounts. This factor can be expressed in the following equation:

$$\text{Indirectly Avoidable Expense Factor} = \frac{\text{Total Directly Avoided Expenses}}{\text{Total Operating Expenses}}$$

This factor is applied to all the indirect avoidable accounts identified by the FCC with the exception of accounts 6722, 6725, 6726 and 6727. None of these accounts will be avoidable – in fact, experience shows that some of these accounts will increase in the event that competition arises in Duo County's exchange area.

The sum of the directly avoided expenses and the indirectly avoidable expenses is equal to the total avoidable expense the ILEC could avoid if it were a pure wholesale provider. The computation of the total avoidable expenses can be shown as:

$$\text{Total Avoidable Expenses} = \text{Total Directly Avoided Expense} + \text{Total Indirectly Avoidable Accounts} \times \text{Indirect Avoidable Expense Factor}$$

Now that *Total Avoidable Expense* has been determined, we need to examine retail service activities to determine any assets that would be avoidable by Duo County under a pure wholesale arrangement. It is important to specify these accounts in order to determine total avoidable cost. The classification of the return on investment of avoidable assets as part of total avoidable cost is "consistent with the Act." (see FCC Order, paragraph 913.) Congruent to the FCC rules on expenses, there are two types of avoidable assets: those that are directly avoided, and those that are indirectly avoidable. Directly avoided assets are those assets directly involved in providing retail service that will be avoided under a wholesale business, *e.g.*, operator boards. The indirectly avoidable assets are those which support direct assets, *e.g.*, land, building, and equipment supporting the directly avoided assets. The accounts that have been identified as possibly containing indirectly avoidable assets accounts are in Table 4.

Table 4
Potentially Indirectly Avoidable Asset Accounts
Part 32 Accounting Detail

Account	Description
2121	Land and Buildings
2122	Furniture
2123	Office Equipment
2124	General Purpose Computer

The proper treatment of these accounts is to identify avoidable assets, apply a return on this combined asset base, and add this to the avoidable cost numerator. Duo County will not realize any avoidable assets under a pure wholesale arrangement.

That concludes our determination of total avoidable costs. We have identified certain accounts that are presumed avoidable and have been rebutted in our development of the avoidable cost discount numerator. We now need to examine the appropriate denominator for determining a wholesale discount.

Determining Wholesale Discount – Denominator

While the FCC provided clear guidance for the numerator in an avoidable cost study, it did not specifically address the treatment of the denominator. In developing its default discount range (data used for the default range was price-cap LEC data), the FCC used the MCI model which uses total operating expense in the denominator. As mentioned above, the method of computing the discount should be consistent with the development of retail rates and the development of the numerator. In light of these

conditions, Duo County presents its method using total cost in the denominator, and since it is a rate-of-return regulated LEC, total cost equals total regulated revenue.

Total operating costs equals total operating expense (including taxes) plus a return on investment for the capital placed in service. The computation for determining the appropriate wholesale discount is equal to the following:

$$\text{Wholesale Discount} = \frac{\text{Total Avoidable Cost}}{\text{Total Operating Cost}}$$

where,

$$\text{Cost} = \text{Expense} + (\text{Asset Base} \times \text{Rate of Return}).$$

It is appropriate to include the return on avoidable investment in the numerator, and in order to retain similar units in this ratio, we include the return on investment in the denominator. This return on investment is the economic cost associated with placing capital equipment into service.

If a denominator other than total cost were required, Duo County would identify in the numerator only those costs that are used to develop the retail rate. This process would eliminate from the numerator all costs associated with interstate and intrastate access service as indicated by residual ratemaking procedures. This elimination of cost is consistent with the FCC rules as expressed in 47 CFR 51.609(d). The FCC intended the

wholesale discount to be established in a similar manner to the establishment of local rates. Duo County considers that a total cost approach is more appropriate for the reasons specified.

Net Avoidable Cost: Cost Onsets

Thus far, this discussion has avoided the necessary cost onsets that will arise in a wholesale operation. We now are in a position to examine any cost onsets that will be imposed on the ILEC. These cost onsets are recurring and non-recurring costs, independent of the customized or setup charges entrants may pay for specialized services or delivery channels.

The onsets are of two types, recurring and non-recurring. The non-recurring offsets are those onsets that, we believe, are legitimately recoverable costs of providing wholesale service but which are most sensibly recovered over a period of time greater than one year. An example of a non-recurring cost onset is the cost of modifying the local tariff to allow for resale. Duo County has included cost onsets for the following recurring wholesale costs that it will incur in performing wholesale service functions: billing resellers, reseller bill inquiry, customer inquiry referrals, reseller payment and collection, audit of cross-class usage, and indirect onsets. The non-recurring cost onsets that are amortized for two years include the cost of avoidable cost study, severance pay, software billing development, and cost of tariff preparation and filing.

Cost onsets should be subtracted from the total avoidable cost numerator. Thus the wholesale discount including onsets is:

$$\text{Wholesale Discount} = \frac{\text{Total Avoidable Cost} - \text{Recurring Cost Onsets} - \text{Amortizable Cost Onsets}}{\text{Total Operating Cost}}$$

This expression determines the percentage of a wholesale discount from retail rates that Duo County presents in its filing.
